

(Micro)Insurance for developing  
and transitioning countries  
**Current trends and future  
opportunities**

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**Munich Re  
Foundation**  
From Knowledge  
to Action

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## **Munich Re Foundation**

### Background

**Going public 7 April 2005**

**Capital € 50 million**

### **Purpose**

Munich Re concerns itself with the great challenges facing the world today – population growth, globalization, diminishing resources, environmental pollution, climate change

The foundation's role is to concentrate specifically on the interaction between population development and the medium of water as elixir of life, resource, and risk factor

**8-10 projects: Disaster prevention, water, population development, climate change and microinsurance**

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## Microinsurance

2005 Germany  
2006 South Africa  
2007 India  
2008 Colombia  
2009 Senegal  
2010 Philippines

**2011 Brazil**

## International Microinsurance Conference



## 7th International Microinsurance Conference 8-10 November 2011, Rio de Janeiro

[www.microinsuranceconference.org](http://www.microinsuranceconference.org)

> 500 participants from  
> 50 countries

## Microinsurance Compendium

Co-published  
with the  
International  
Labour  
Organization  
(ILO)



Available in English, Spanish, French and Portuguese

[www.microinsurancecompendium.org](http://www.microinsurancecompendium.org)

# Agenda

- Access to insurance - Where do we stand?
- Microinsurance - What are we talking about?
- Challenges
- Role of...
- Opportunities
- Summary and recommendations

# Microinsurance

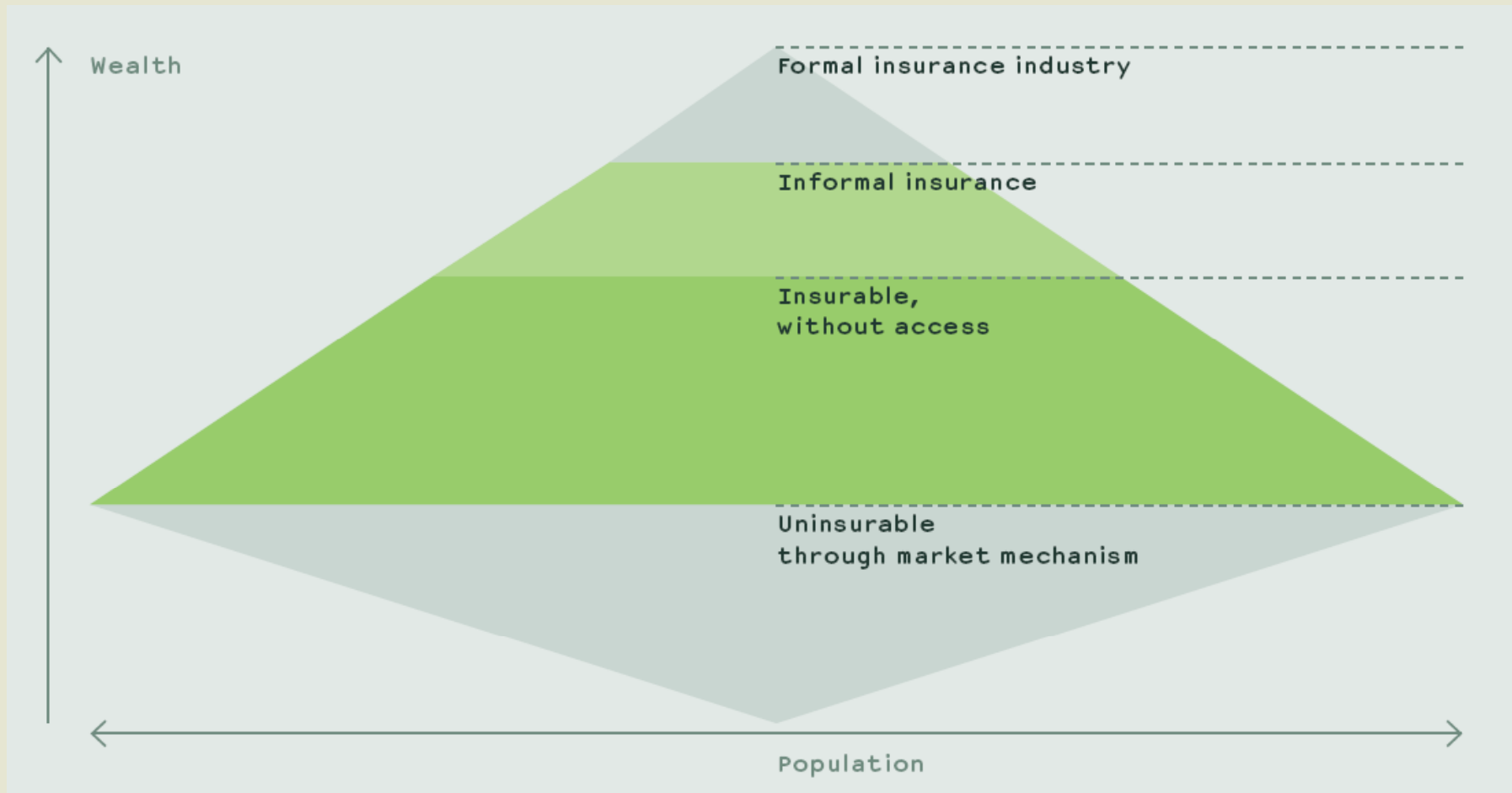
## What are we talking about?

### Definitions

Microinsurance is insurance for the poor that otherwise do not have access to insurance

Definitions by regulations (e.g. India, Philippines)

# ... but not the poorest of the poor



Source: Churchill, Craig. Presentation 'An introduction to microinsurance'. Microinsurance Conference 2007.

## Some myths...

**“MI policyholders can’t afford to pay premiums”**

Many pay far more for informal risk management

**“MI is just conventional insurance sold with small premium amounts per risk”**

Downscaling reflects a lack of understanding the market

Source: Craig Thorburn, CGAP/Worldbank

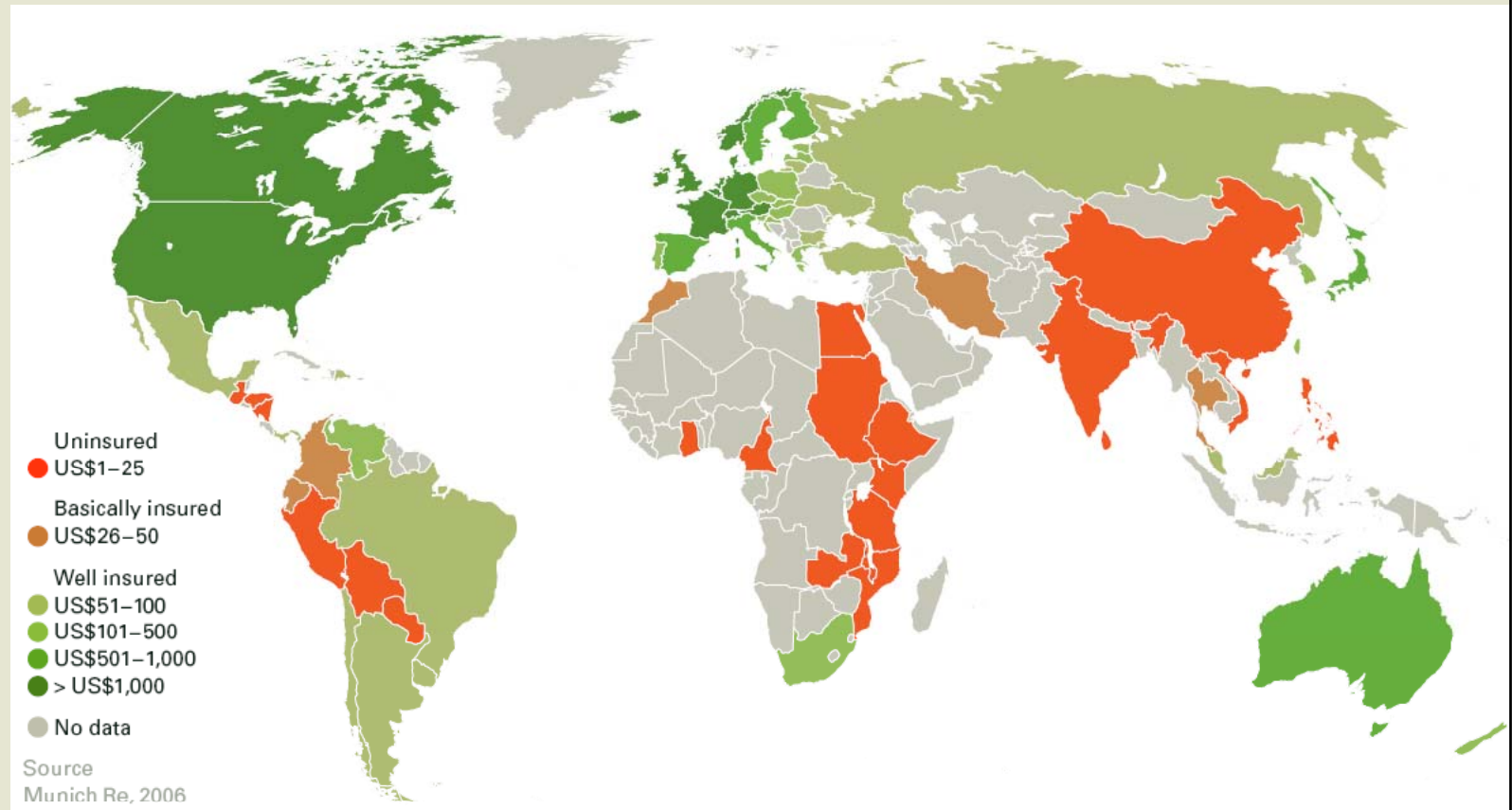
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# Access to insurance

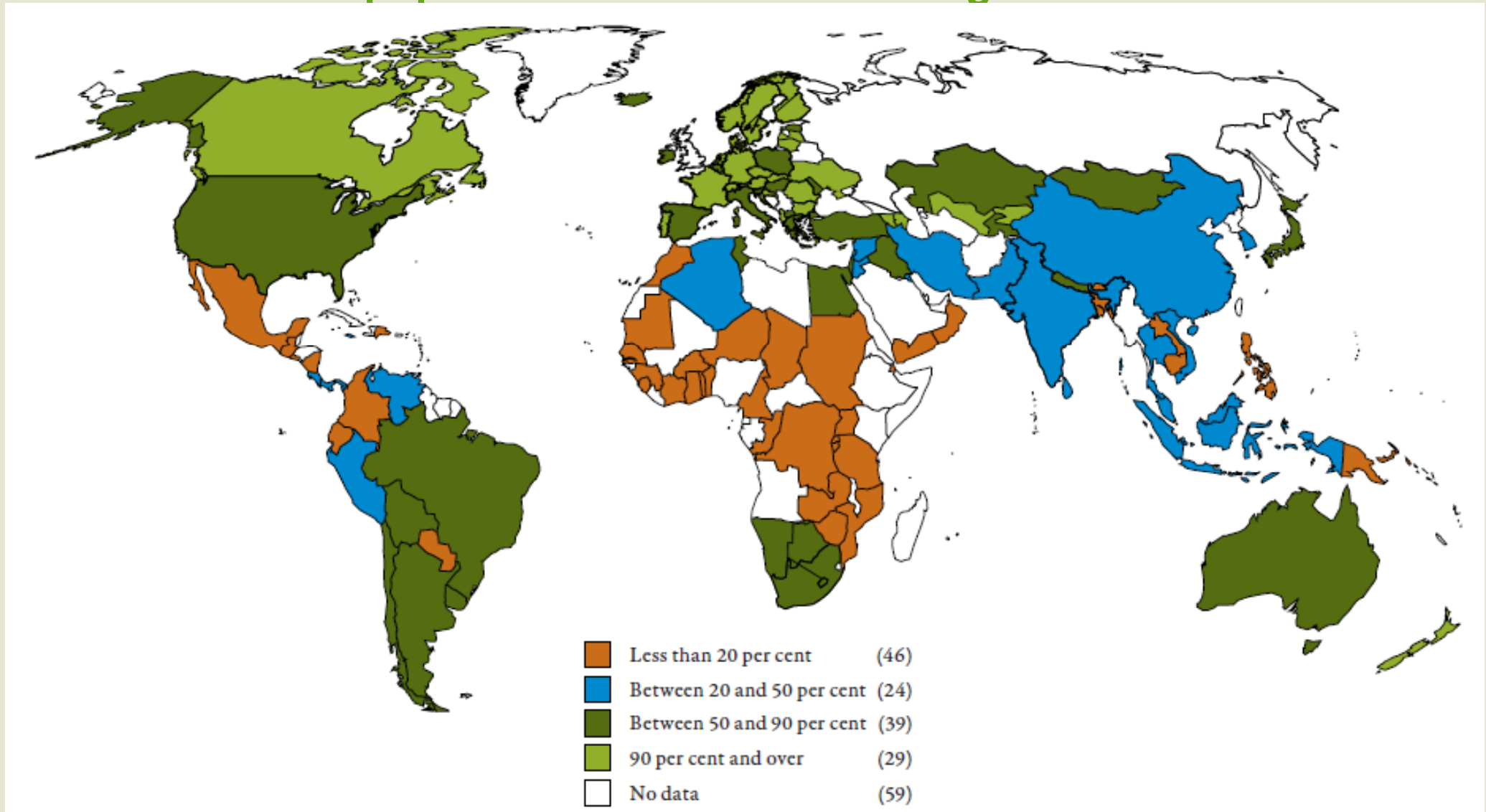
## Where do we stand?



## Property insurance premiums (non-life including health) per person and per year



## Old-age pension beneficiaries as a percentage of the population above retirement age



Source: ILO, World Social Security Report 2010/2011

Link: <http://www.socialsecurityextension.org/gimi/gess/ResFileDownload.do?ressourceId=15145>

Note: Latest available year for country data with corresponding year see the Statistical Annex.

## Landscaping Study 2006 – MicroInsurance Centre

Microinsurance offered in the 100 poorest countries

**78 million people in the 100 poorest countries were found to have microinsurance cover.**

- 357 microinsurance products  
(separate from social security schemes)
- 116 social security schemes
- 246 microinsurers  
(separate from government providers of social security)

## Microinsurance in Africa I

- By the end of 2008, only 14.7 million (or 1.5 %) of the people in Africa 32 countries were covered by microinsurance.
- Moreover, 56% of the penetration is in South Africa where funeral insurance is widespread.
- On average, microinsurance schemes grew at an impressive rate of 30% from 2007 to 2008.

Source: Michal Matul,  
Michael J. McCord,  
Caroline Phily, Job Harms.  
“The Landscape of  
Microinsurance in Africa”.  
ILO, October 2009

## Microinsurance sees growth opportunities in Asia

Press conference – 6<sup>th</sup> International Microinsurance Conference 2010 – 9.11.2010



- **Over 140 million people**, mostly in Africa and Asia, are now covered by affordable insurance products.
- **India, Indonesia** and the **Philippines** offer the biggest opportunities for the fledging microinsurance industry.
- Half of microinsurance products are focused on life and health while less than 10 per cent cover farms.
- About 14 percent of the Philippines' 96 million people have insurance, including 2.9 million people covered by microinsurance
- The Philippines have a potential market of nearly 35 million people willing to pay a premium of 20-30 pesos a week for coverage of up to 120,000 pesos (\$2,800) in life and non-life benefits.

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# Challenges

## Key challenges

- Low premium and high transaction costs per client
- Lack of infrastructure
- Lack of insurance knowledge
- Insurance illiteracy: significant investment in customer-education is necessary
- Low and irregular income: volume is a basis for returns on investment
- Lack of data
- Regulation

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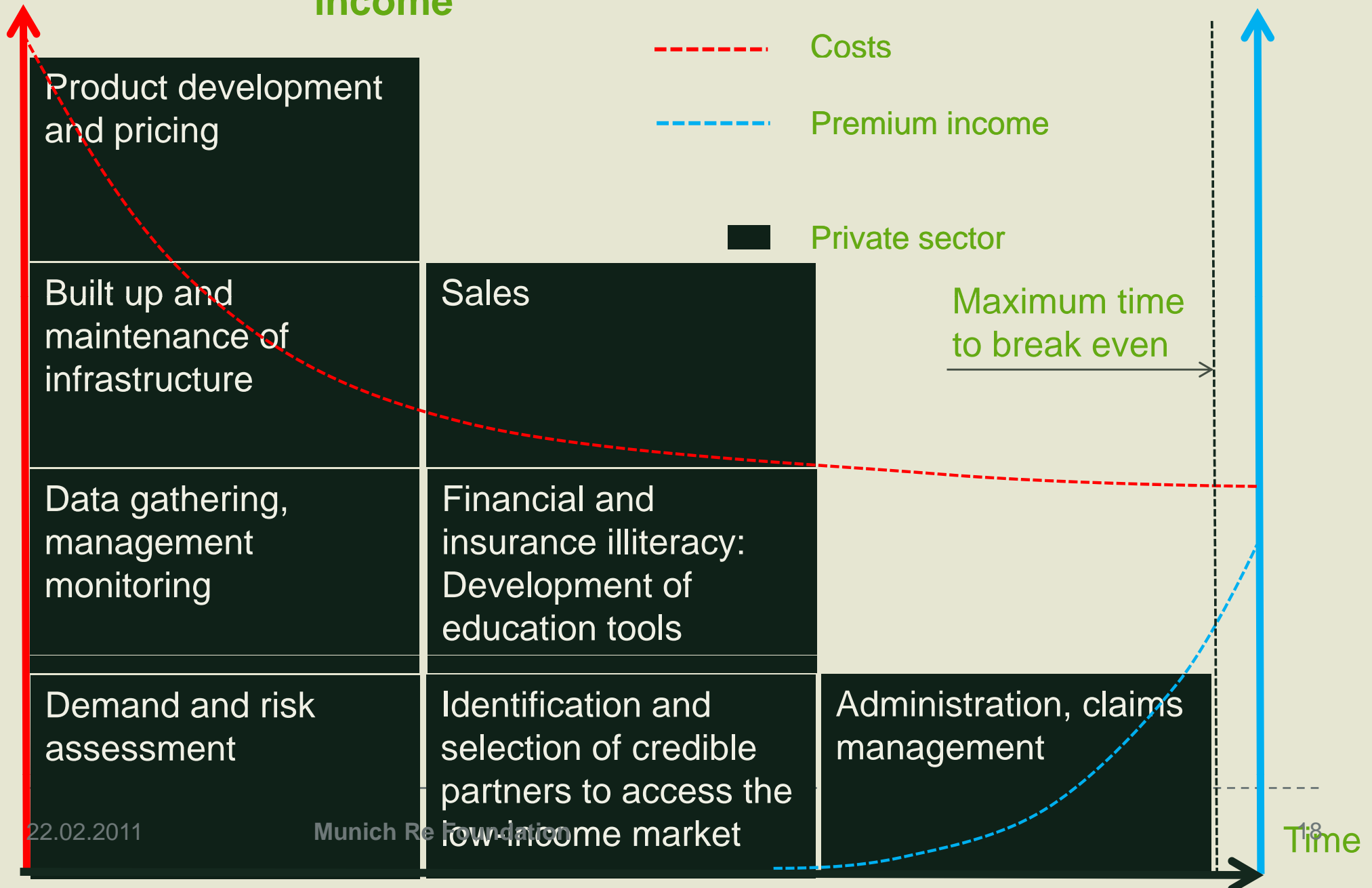
## Role of ...



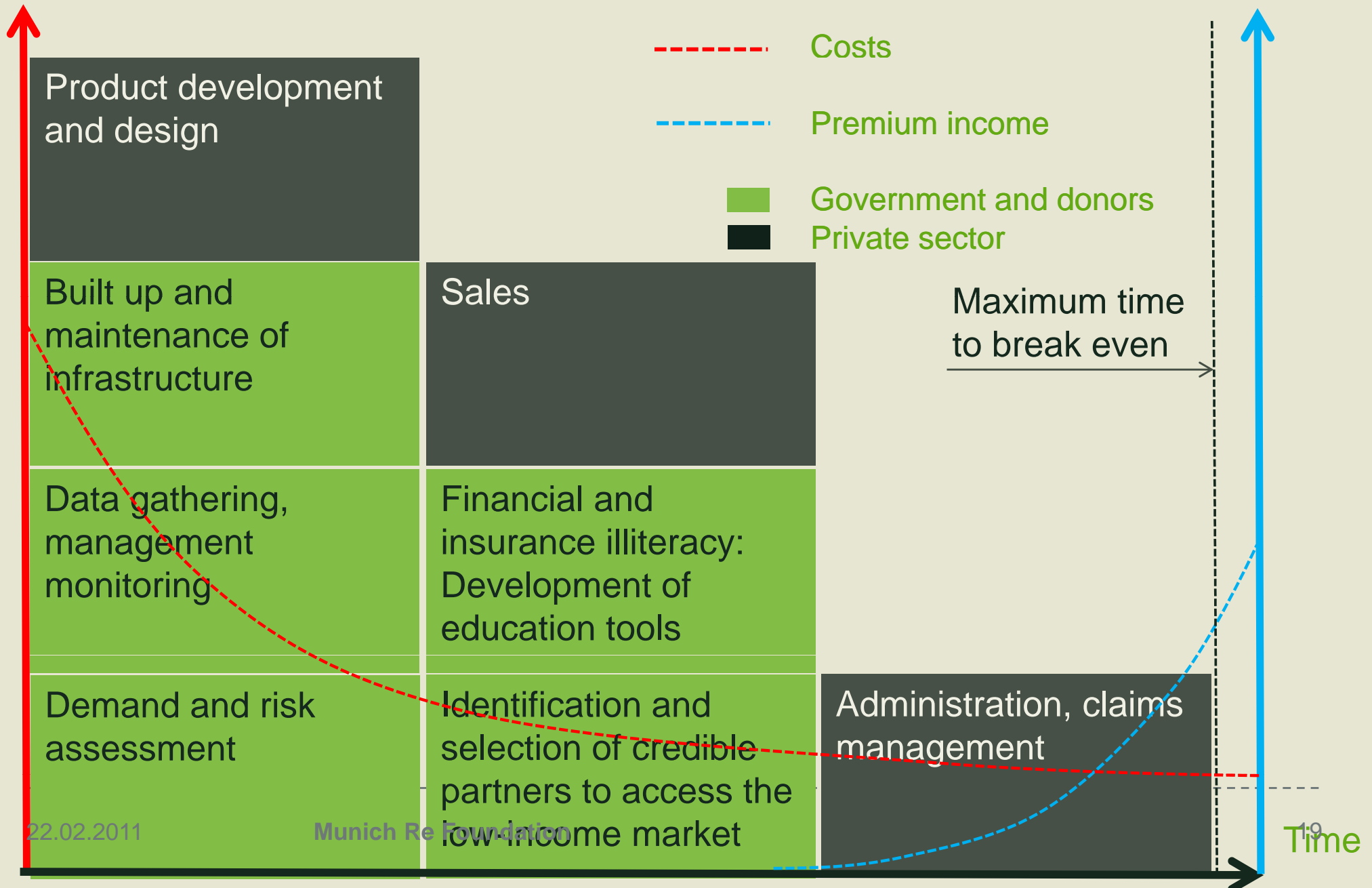
## Role of ...

1. **Insurance industry:** Risk coverage, insurance knowledge, technical support...
2. **Government:** Legal framework, incentives (e.g. South Africa, India, Philippines)...
3. **Donor agencies:** Financial support for demand surveys and product development...
4. **NGOs/MFIs:** Link to the local communities...
5. **Academics:** Provide evidence on what works and what does not work

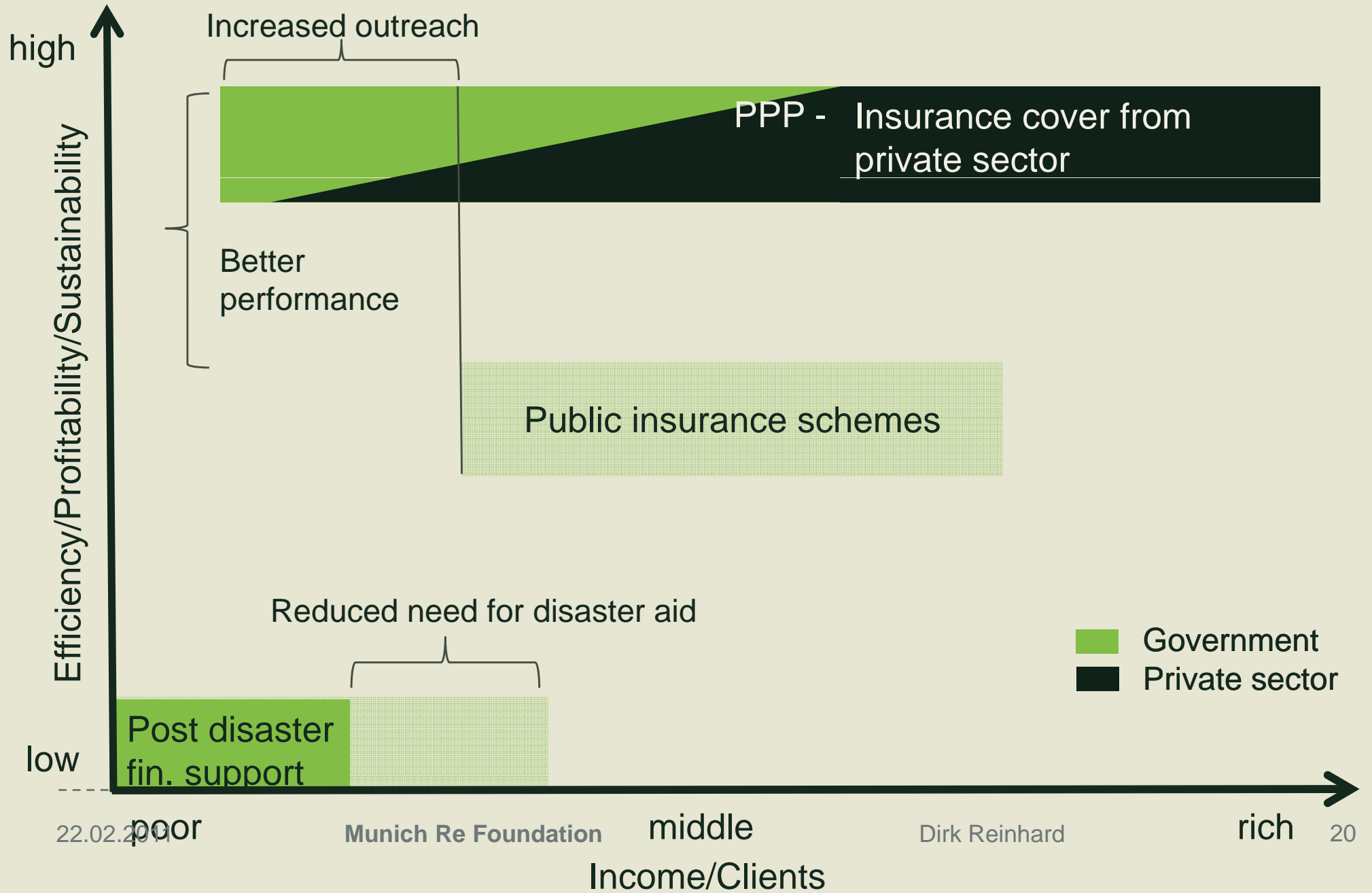
# Key barrier for microinsurance development High upfront development cost vs. low premium income



# Potential roles of the government and donor organizations: Introduction of smart subsidies



# PPP: Increased outreach higher efficiency, lower need for disaster aid



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# Opportunities

**Start: March 2009,**

By June 30th 2010, 7 branch companies carried out pilot projects. They covered the central, northern, and southern parts of China, where most migrant workers are located.

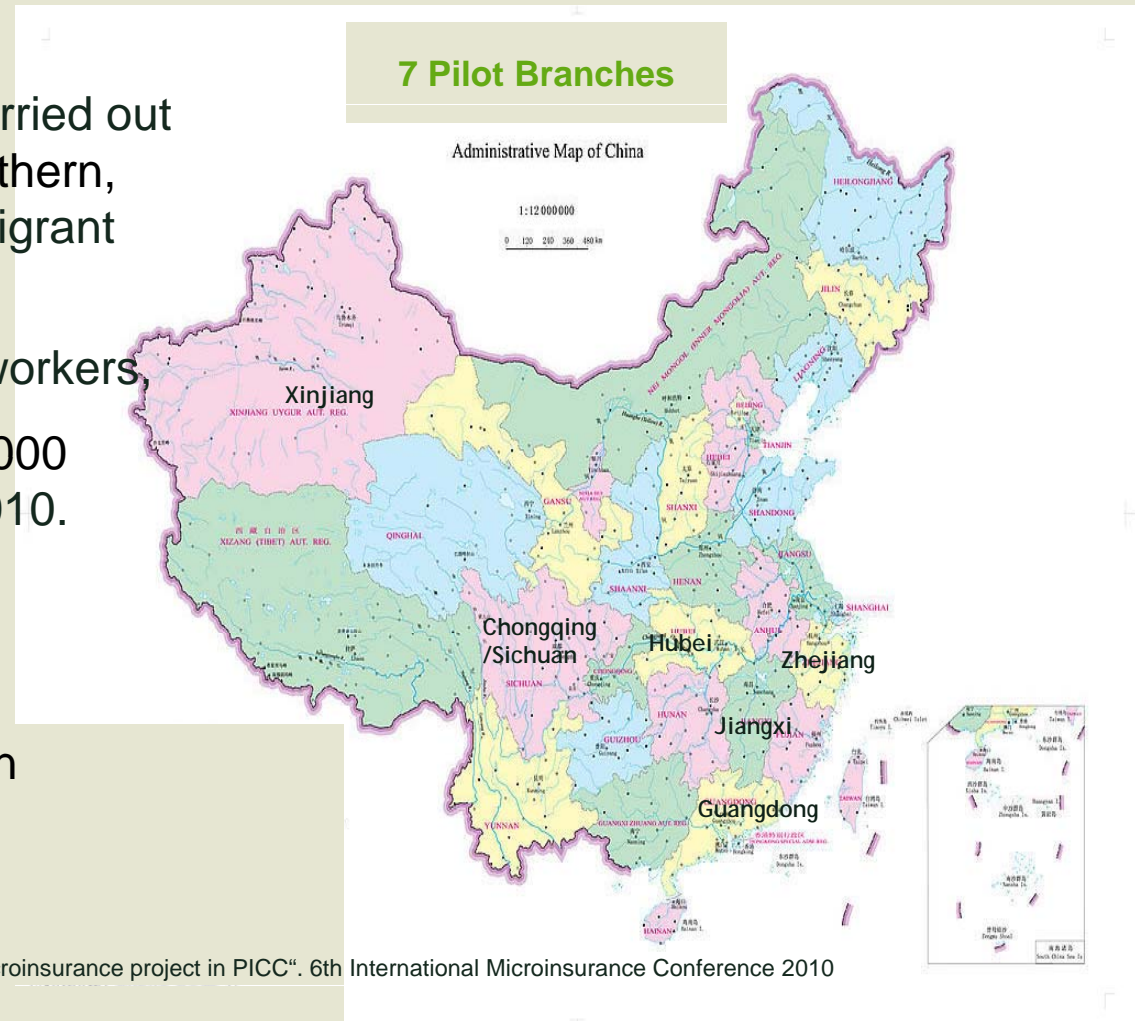
**Clients (end of 2010):** > 600,000 migrant workers,

Provided insurance education to over 520,000 migrant workers by the first 3 quarters of 2010.

**Premium**

2009: RMB 2.568 million (USD 377,647)

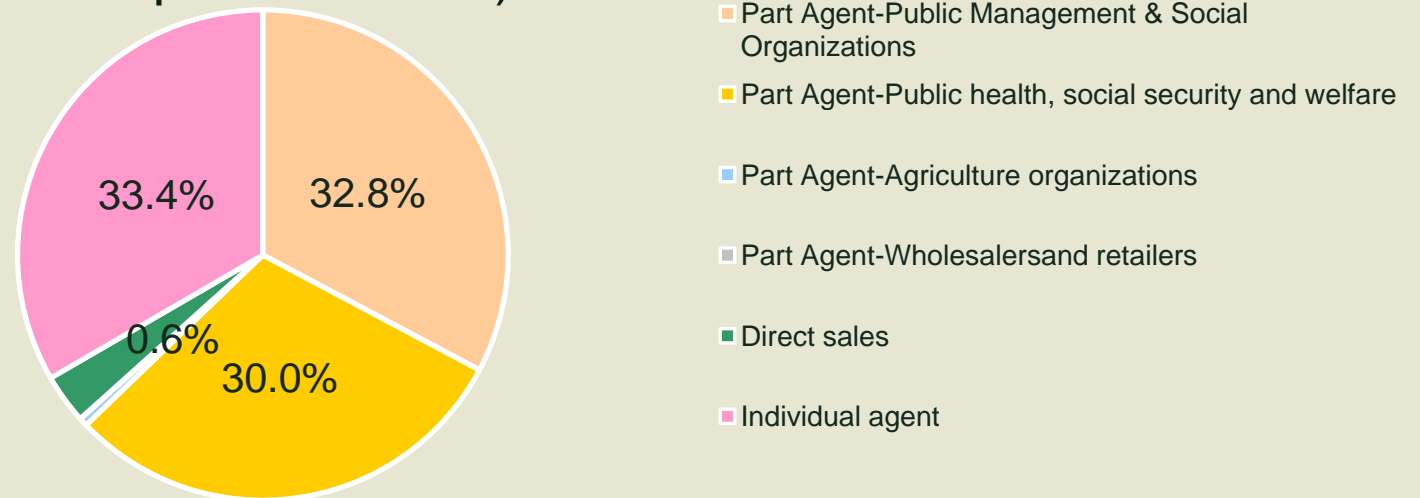
First three quarters 2010: RMB 7.640 million (USD 1.12 million)



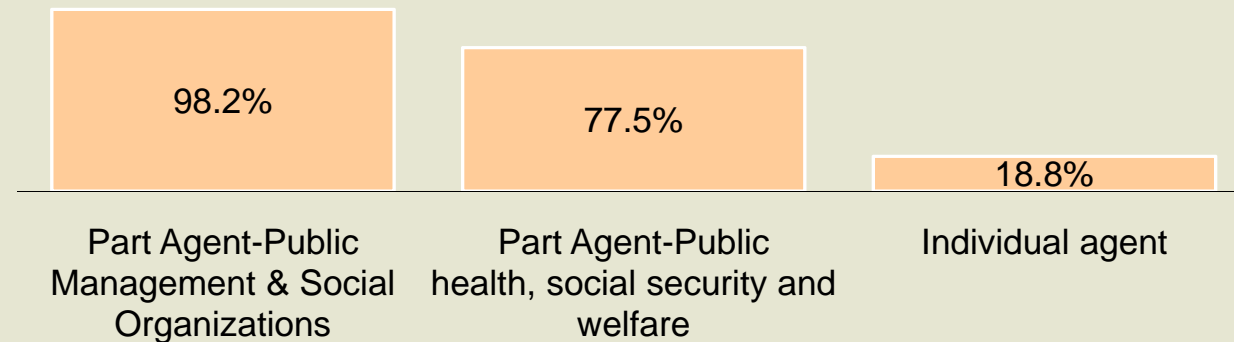
Source: Huijing Yang. Presentation „ Case study on channel establishment of microinsurance project in PICC“. 6th International Microinsurance Conference 2010

## Analysis of sales channel – premium share

Gross premium income by channel  
(first three quarters 2010)



Share of government subsidy in the premium



Source: Huijing Yang. Presentation „ Case study on channel establishment of microinsurance project in PICC“. 6th International Microinsurance Conference 2010

## Opportunity International MicroEnsure



Funding by the Bill & Melinda Gates Foundation:  
US \$24.2 million

### **Products**

- Credit Life
- Funeral
- Health
- Political Violence
- Property
- Typhoon
- Weather Index Crop

### **Countries**

- Bangladesh
- Ghana
- India
- Kenya
- Malawi
- Mozambique
- Philippines
- Tanzania

The grant will allow the microinsurance agency to expand into 11 new nations and provide life, health and crop insurance to over 20 million more poor people by the year 2012.

Source: [www.microensure.com](http://www.microensure.com)



## Profitability: Example of CIC Kenya

Compulsory products exceed voluntary products

QUANTITATIVE MEASURES	Credit Life			Bima ya Jamii bundled accidental death and disability, funeral expenses and health cover		
	2009	2008	2007	2009	2008	2007
Gross insurance profit ratio	66.1%	65.7%	68.7%	(27.4%)	51.4%	60.3%
Growth in gross written premiums	66.3%	7.3%		3.7%	412.4%	
Number of covered lives	260,000	170,000	160,000	19,000	17,500	3,500

- Compulsory credit life has gained scale and was profitable from the start of the initiative
- Voluntary bundled product volumes have grown significantly, but has not reached targeted volumes.
- A significant proportion of the costs of skills development, building relationships with partners and consumer education for the Bima ya Jamii product were funded by donors, the results are significantly poorer if these costs were not funded by donors (2009: (92%) and 2008: 20%)

Source: Douglas Lacey. Presentation „A business case for microinsurance“. 6th International Microinsurance Conference 2010

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# Opportunities

## Meso and macro scale

## CLIMBS – Trigger based taifun insurance in the Philippines

- In the Philippines, **Munich Re** in partnership with **GIZ** (German Technical Cooperation) has developed an index-based catastrophe protection policy for recovery of loans defaulted because of a natural disaster by members of 1,677 primary cooperatives insured with **CLIMBS** (cooperative insurance).
- Named “Weather Protect,” the policy is a meso-level solution formalizing informal risk-sharing among cooperatives and doing without the cost burden of an intermediary commercial insurer.

# CLIMBS – Trigger based taifun insurance in the Philippines



## CLIMBS – Trigger based taifun insurance in the Philippines

- The policy provides for a payout to be made after an extreme rainfall or strong wind.
- Typhoons tend to be very rainy or very windy. The cover is based on triggers - one each for the 1,632 municipalities – developed using 10-, 15- and 20-year data periods and monitored by a satellite system.
- The immediate cash and liquidity given the affected cooperative will help its members jointly manage the aftermath of a natural disaster.
- The annual premium is 3.5% of the accrued loans - lower than interest rates in other lending businesses.

## Policy payout terms



### TRIGGER CATEGORY RED

PAYOUT 20% of the accrued average loan per municipality



### TRIGGER CATEGORY ORANGE

PAYOUT 10% of the accrued average loan per municipality

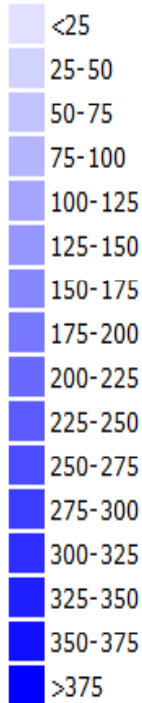


### TRIGGER CATEGORY Yellow

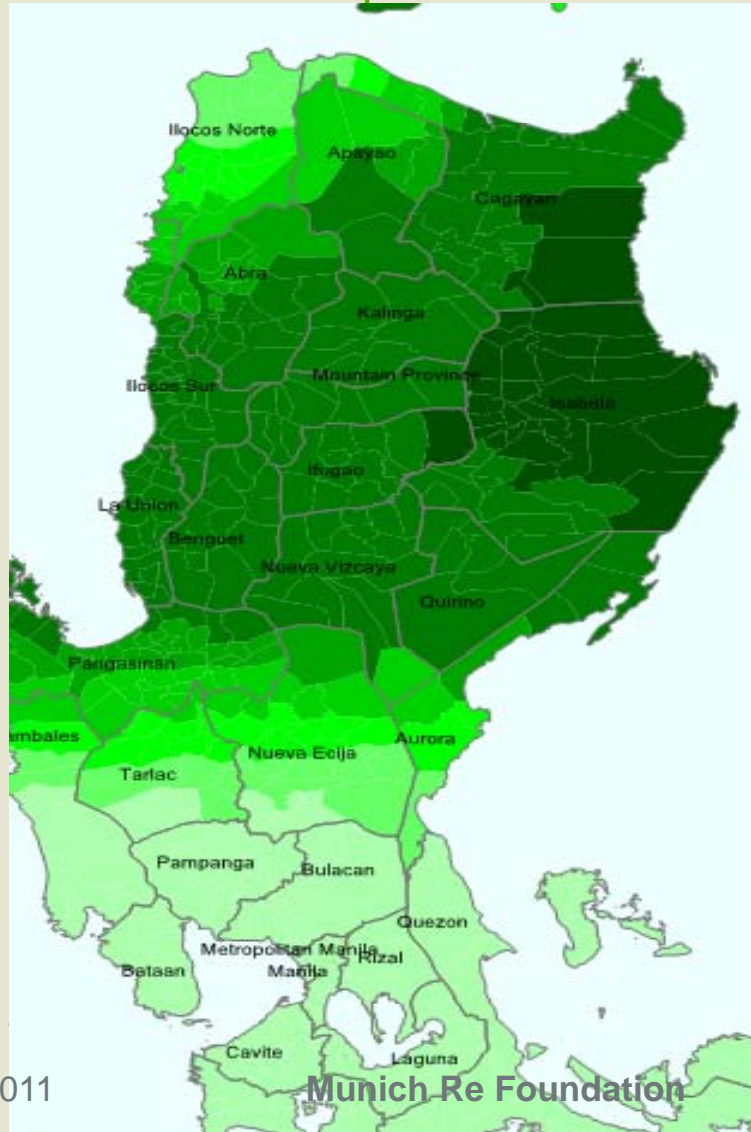
PAYOUT 5% of the accrued average loan per municipality

# Trigger Category mapping (Example Typhoon Megi)

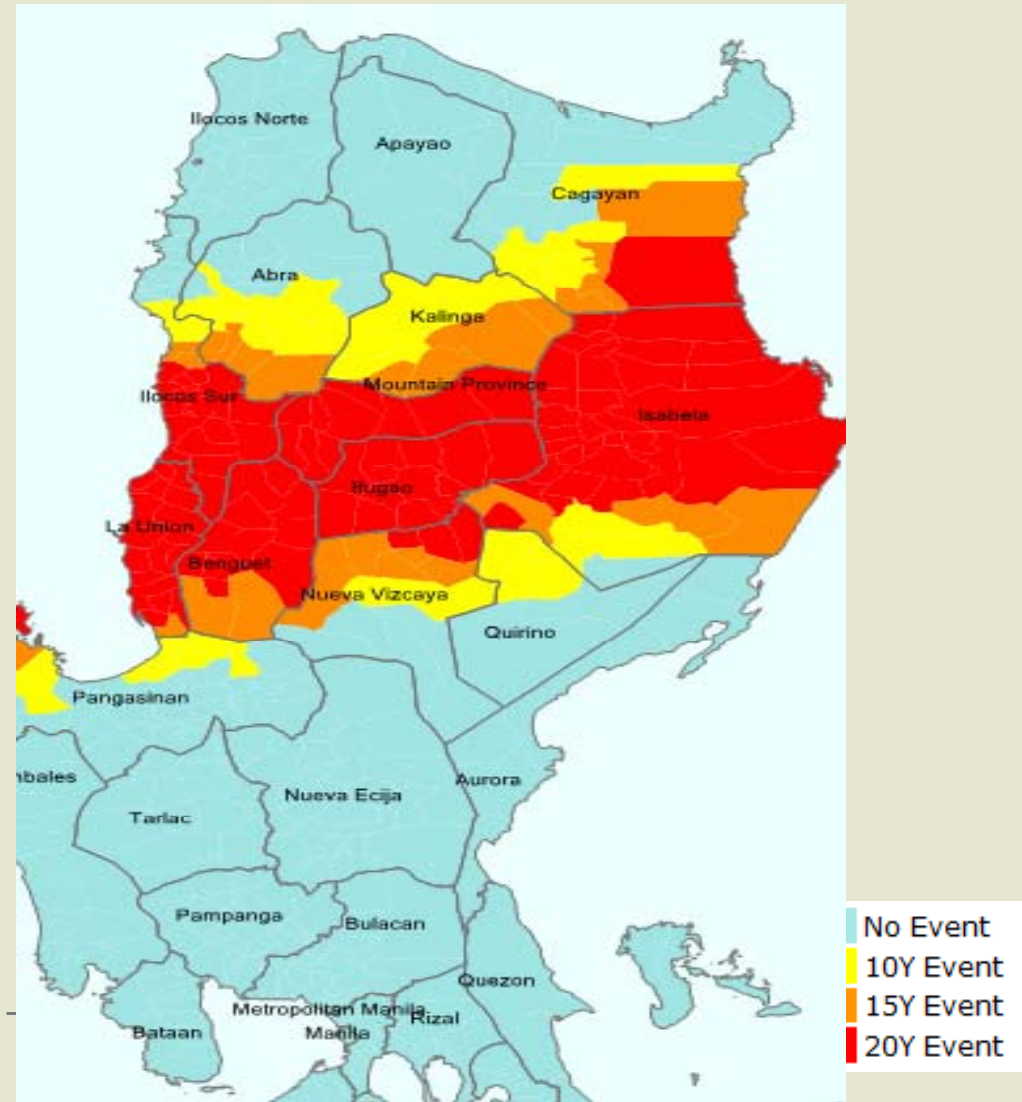
Rain (mm)



Actual Windspeed



Categorized in Intensity



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## The International Climate Initiative

### Goals in the field of adaptation



Since ICI was launched in 2008, BMU has initiated 184 projects with funding totaling some **360 million €**. Additional capital contributed by the agencies implementing the projects and funding from other public and private-sector sources bring the total funding volume for the ICI projects to over **a billion €**.

- Developing institutional capacity as well as implementing sub-components of suitable national and regional adaptation programmes
- **Developing and testing climate insurance instruments**
- Ensuring the conservation, restoration and sustainable use of habitats of particular importance to adaptation (e.g. climate protection function of mangroves)
- Implementing integrated project approaches, including water resources management, optimised land use and sustainable biomass production, and preventive healthcare.



# Summary and recommendations

## Summary and recommendations

- There is a **huge untapped market**
- Several products have proven to **be economically viable**
- The **poor are willing to pay** if they can access the right products
- **Starting with already-existing organisations**
- **Strong PPPs** link experience, build a strong regulatory framework for the benefit of all parties
- Need for action: **as weather-related natural disasters increase, so does the vulnerability** of the poor
- **Learn from different regions and combine knowledge**
- **Don't listen to your heart, listen to your calculator!**

**Thank you for your attention!**

**Dirk Reinhard**  
Vice Chairman  
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