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**Article**

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Weekly Report

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# Weekly Report

## Microinsurance: A Large Untapped Market

*In tandem with the growth of microloans and microsavings, insurance policies geared towards low-income households have also become increasingly widespread over the past decade in developing and emerging countries. There is hope that microinsurance will allow large segments of the population who lack access to government social security to insure themselves against adverse life events, thus helping to safeguard their economic well-being.*

*Yet much work is to be done if this goal is to be attained. On the one hand, the availability of microinsurance is still extremely limited. On the other hand, potential and current microinsurance customers do not place much trust in insurance providers. They also lack knowledge about specific insurance products, as shown by our investigation of a microinsurance policy in Ghana. Yet another factor is that many commercial insurers still have not managed to adapt to the particularities of the microinsurance market.*

Microfinance has been a topic of keen public interest in recent years. An important milestone in the growth of awareness for microfinance was the granting of the Nobel Peace Prize to Muhammad Yunus in 2006 for his idea of extending small loans to the poor. Microinsurance, however, entered the scene much later than microloans and microsavings, and only became a prominent topic of discussion quite recently. Just ten years ago hardly a single commercial insurance company viewed the “bottom of the pyramid” – i.e. low-income earners in developing and emerging countries – as a profitable market. Today, a number of larger insurers such as AIG and Allianz offer microinsurance products in many countries. Microinsurance has also become an important issue for those involved in development cooperation.<sup>1</sup>

### What is Microinsurance?

In the words of Craig Churchill, the editor of perhaps the largest publication on the subject, *Protecting the Poor: A Microinsurance Compendium*, microinsurance is “the protection of low-income people against specific perils in exchange for regular

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<sup>1</sup> Giesbert, L. and Voss, J.: Marktbasierete Mikroversicherung? Mikroversicherung als Instrument der sozialen Sicherung, GIGA Focus Global 10/2009, Hamburg, GIGA, 2009.

premium payments proportionate to the likelihood and cost of the risk involved.<sup>2</sup> This is the same definition that applies to regular forms of insurance, except for in one small – albeit crucial – respect: the customers involved. In order to gear microinsurance to the needs of low-income people in developing and emerging countries, microinsurance policies must be designed quite differently from standard insurance products. For example, microinsurance premiums – and, therefore, the sums insured – are much lower than that of standard insurance policies.

Often premiums are collected monthly or even weekly instead of once a year in order to take into account the irregularity of the income earned by microinsurance's target customers. Local actors such as microfinance institutions are often integrated into the distribution process in order to help minimize the social distance between insurers and potential customers.

The question as to which risks should be covered is an additional important determining factor for the design and feasibility of microinsurance. Idiosyncratic risks – i.e. those that only impact specific individuals or households, such as sickness, accidents, or death – can be insured by the insurance provider in an easier manner and at lower risk than covariant risks such as natural catastrophes or crop losses, which always simultaneously impact many individuals in close proximity to one other. This explains why agricultural and disaster insurance can be found much less frequently around the world than microinsurance for individual risks, including first and foremost life insurance (particularly credit life insurance<sup>3</sup>), followed by accident, property, and health insurance.

### Great Expectations

Microinsurance has tremendous potential for both sides of the market. On the household side, microinsurance offers the opportunity to obtain a reliable, formal safeguard against adverse life events. In developing countries in particular, individuals are subjected to many risks. Poor sanitary conditions, for example, lead to a higher frequency of sickness than in developed countries. Furthermore, people possess hardly any strategies for overcoming such risks. In developing countries the majority of the population has no access to government social insurance, as such benefits are often reserved for public sector employees, and, to some extent, the

<sup>2</sup> Churchill, C.: *Protecting the Poor: A Microinsurance Compendium*. Geneva, International Labour Organisation, 2006.

<sup>3</sup> Credit life insurance is mandatory insurance bound to microloans.

employees of the formal private sector and military. Private sector insurance markets are poorly developed in many places, and when they do exist, they often only serve an affluent minority. A number of alternatives, mostly informal safeguard mechanisms do in fact exist in families and village communities, including risk distribution systems (e.g. burial societies), networks for mutual support (e.g. loan arrangements; private money transfer), and measures to self-insure against hard times (e.g. savings; crop stockpiles). Many studies have shown, however, that these mechanisms typically only offer a low degree of protection and are also very cost intensive.<sup>4</sup>

From the perspective of the insurance companies, microinsurance represents a tremendous untapped market that is worth billions. In some countries, particularly in Africa, only 5 to 10% of the population is insured through government social insurance programs. It is self-evident that the sale of insurance policies to the remaining 90 to 95% of the population – or at least to the less impoverished segments thereof – is an enticing business opportunity.

Despite the excitement over this new market, however, the growth of microinsurance is hindered by several problems. The availability of microinsurance is still extremely limited. Of the four billion people worldwide who live on less than two dollars per day, only 78 million had access to microinsurance in 2007.<sup>5</sup> On the supply side, high transaction costs – particularly in relation to the very low premiums – are a problem. Among other things, these high costs are a product of insufficient infrastructure and a lack of financial literacy among potential customers.

### Insights from Ghana

Within the scope of a research project seeking to identify factors that influence the acquisition of microinsurance, a quantitative household survey was administered to more than 1,000 households in three regions in Southern Ghana in February and March of 2009.<sup>6</sup> Among the surveyed households, 350 had acquired the so-called Anidaso microinsurance policy, which will be discussed later in greater detail. The average monthly income of the surveyed households that had a microinsurance policy was 91 Ghanaian cedi (88 euros), a figure considerably higher than the income of the households without

<sup>4</sup> cf. Dercon, S.: *Income Risk, Coping Strategies, and Safety Nets*. World Bank Research Observer, 17 (2), 2002, pp. 141–166.

<sup>5</sup> Roth, J. et al.: *The Landscape of Microinsurance in the World's 100 Poorest Countries*. Appleton, WI, The Microinsurance Center, 2007.

<sup>6</sup> This research project was financed by the foundation DZ Bank-Stiftung and carried out by the authors of this Weekly Report at the German Institute for Global and Area Studies (GIGA).

a microinsurance policy (78 Ghanaian cedi, or 75 euros). Approximately 30% of the surveyed households could be described as poor; i.e. their income fell below the national poverty line. In October 2008 four focus group discussions were also carried out. Each group was composed of an equal number of individuals with insurance and without insurance.

### Anidaso: Ghana's First Microinsurance Policy

In October of 2001 CARE International began to develop a life insurance policy by the name of "Anidaso" ("hope") in collaboration with Gemini Life Insurance Company (GLICO). Beginning in 2005, CARE gradually pulled out of management and monitoring activities, and today all aspects of the policy are administered by GLICO. Anidaso is a complex product. Its main component is a term life insurance policy. In addition, it includes flexible accident coverage, a benefit for hospital stays, and an optional savings plan. The policy is offered by GLICO insurance agents in cooperation with rural banks. The premiums (approximately two euros per month) are directly debited from customer bank accounts.

The Anidaso policy was the first private-sector microinsurance coverage available in Ghana. Today, numerous companies are active on the market: Of the 38 insurance providers in Ghana, six companies have sold an estimated 50,000 policies in total, primarily in the capital of Accra and in other large cities. Alongside life insurance policies (particularly credit life insurance) other forms of insurance have been gradually introduced, such as property insurance. Furthermore, agricultural insurance products are in a state of planning, including weather index insurance. Nevertheless, the market penetration of microinsurance – that is, the number of insured individuals in relation to the potential market – is still extremely small: just 0.8%.<sup>7</sup> Some 15,000 Anidaso policies had been sold by the end of 2008. It is the only microinsurance product sold in any appreciable numbers in rural regions of Ghana.

### Households Are Exposed To Tremendous Risks But Have No Insurance

Illness and death were the most common forms of risk for the 1,031 Ghanaian households who participated in the survey (Table 1). Thirty-six percent of the households indicated that at least one household member or close relative had fallen ill over the last five years; 23% reported a death. Between 10

Table 1

### Risk Events Occurring Over the Last Five Years

	Number of incidents cited <sup>1</sup>	Percent
Illness	376	36.5
Death	241	23.4
Destruction of property/assets	180	17.5
Interruption of business	167	16.2
Theft	137	13.3
Flooding	130	12.6
Loss of work	124	12.0
Drought	99	9.6
Pest infestation and animal disease	82	8.0
Accident	69	6.7
Divorce/separation	45	4.4
Burial of family members	40	3.9
Disputes over land/assets	35	3.4
Other	50	4.8
Number of households surveyed	1 031	

<sup>1</sup> Multiple responses possible.

Source: 2009 Ghana Household Survey.

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**Illness and death** are the largest economic risks for Ghanaian households.

and 20% of the households named the destruction of property or assets, the interruption of business activities, theft, flooding, or the loss of a job as adverse events that had taken place over the last five years. Other events were cited by less than 10% of the households.

Due to the frequent incidence of illness and death, we can suppose that a majority of households would be interested in insuring against the losses associated with these risks. Indeed, 52% of households in the surveyed regions had acquired the publicly provided National Health Insurance coverage, which provides free basic medical care at recognized hospitals and health clinics. By contrast, only 2% were insured through Anidaso, although both types of coverage were introduced to the market at the same time. An additional 5% of households had acquired other life insurance products. A total of 7% had private-sector pension, accident, or automobile insurance. The risk of death was insured far less frequently than that of illness, despite the fact that burials in Southern Ghana are a very expensive ritual. In Ghanaian burial ceremonies, the families seek to display and preserve their social standing through a show of wealth.

In order to explore the topic of underinsurance, households without any insurance coverage were asked as to why this was the case. Approximately half indicated that insurance was too expensive

<sup>7</sup> Matul, M. et al.: The Landscape of Microinsurance in Africa. Microinsurance Paper 4, Geneva, International Labour Organisation, 2010.

Table 2

### Reasons Indicated for Lack of Coverage

	Number of times mentioned	Percent
Too expensive	177	46.1
Not important to me	58	15.1
Lack of trust in insurance provider	38	9.9
Lack of information about insurance options	33	8.6
No time / I don't want to be disturbed	22	5.7
No knowledge about insurance in general	18	4.7
Haven't thought about it until now	15	3.9
Insurer too far away	11	2.9
Other	4	1.0
Not entitled	3	0.8
Insurance not seen as effective	3	0.8
Process too complicated	2	0.5
All households without insurance	384	100.0
Number of surveyed households	1 031	

Source: 2009 Ghana Household Survey.

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More than a third of the surveyed households had no insurance coverage whatsoever.

(Table 2). Fifteen percent stated the opinion that insurance was not important, and another 9 to 10% identified lack of trust in the insurance provider and a lack of knowledge about insurance options as reasons.

### Neither the Insured Nor the Insurance Companies Are Well Informed

Most Anidaso customers seemed to understand the basic principle of insurance. A total of 90% indicated

they had acquired the insurance policy in order to mitigate the effects of future economic shocks, to protect their family in the event of illness or death, or for the purpose of saving money (Table 3). Only 10% identified a reason that had nothing to do with the actual Anidaso insurance benefits. Nevertheless, many customers displayed a severe lack of knowledge about their specific policy. In the focus groups it became clear that the insured did not have sufficient information about their benefits. In some cases, they had no knowledge at all. One group, for example, debated whether school fees for children were covered. Participants also indicated that they did not know if they could trust their GLICO agent. Others were unaware of how to contact their agent.

Even more problematic, however, was that the GLICO agents themselves were ill-informed about the Anidaso policy. Whether intentionally or unintentionally, many also provided false information about the policy. In one of the survey locations, potential insurance customers were promised easier access to bank credit within the scope of the sales pitch. This and other examples of false expectations being engendered in customers as well as individual cases of fraudulent behavior understandably lead to frustration and a poor image not only for GLICO, but also for insurance services in general. In addition, considerable deficits were identified in management practices, particularly in data collection and in the administration of policy premiums. GLICO does not possess a customer database with standardized information about the customer (name, complete address, DOB, etc.). It only possesses a list of names, locations of residence (but not street names or house numbers), and the date the insurance policy was signed. The debiting of premiums is non-transparent for customers and documents are not forwarded to customers reliably, such that some customers are unaware they have insurance coverage or don't know that their coverage has expired.

### Conclusion

Advocates of microinsurance hope that it will provide a reliable form of protection against adverse events for a large number of people in developing and emerging nations. However, our examination of the Anidaso policy in Ghana shows that the microinsurance market suffers from a number of weaknesses, including knowledge deficits among target customer groups in relation to insurance in general and individual products in particular; a lack of communication between the insured and the insurance provider; as well as severe deficiencies in data collection. Such weaknesses can also

Table 3

### Motivation for the Acquisition of an Anidaso Policy<sup>1</sup>

	Number of times mentioned	Percent
Insure against future economic shocks	180	56.8
Protect the family against illness and death	77	24.3
To save money	28	8.8
To acquire collateral for a loan	17	5.4
Pension rights	5	1.6
To finance medications	4	1.3
To finance burial	2	0.6
To finance school fees	1	0.3
Other	3	0.9
All households with Anidaso insurance	317	100.0
Number of surveyed households	1 031	

<sup>1</sup> Microinsurance policies offered by the company GLICO in Ghana.

Source: 2009 Ghana Household Survey.

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The basic principle of insurance was understood by most households.

be observed in other parts of the world, and are not limited to this example case. Microinsurance providers must improve their communication with customers and expressly strive to serve the needs of those at the “bottom of the pyramid.” Only then can microinsurance become the success story hoped for by so many.

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