

## WHAT IS MICROINSURANCE?

Microinsurance is a mechanism aimed at protecting poor people against risk (accident, illness, death in the family, natural disasters, etc.) in exchange for insurance premium payments tailored to their needs, income and level of risk. It is aimed primarily at the developing world's low-income workers, especially those in the informal sector, who tend to be underserved by mainstream commercial and social insurance schemes.

## THE CHALLENGES

The challenges in increasing insurance cover among low-income people in developing countries lie in three main areas – products, models and education.

**➤ PRODUCTS** The concept of 'product' covers not only price, benefits and terms, but also product management and delivery processes. In microinsurance, the challenges include getting product price and benefits right, coping with huge volumes of small policies, collecting premiums from people without bank accounts, verifying and paying small claims, and controlling fraud.

**➤ MODELS** New models and partnerships are needed that capitalize on the strengths and overcome the weaknesses of current institutional models for providing insurance. The challenge is to devise institutional solutions that are efficient, provide relevant and affordable coverage, and balance the interests of risk carriers, delivery channels and policy holders.

**➤ EDUCATION** The poor tend to have short-term planning horizons, to be suspicious of insurers' motives and to believe that insurance is only for the rich. They often do not understand how insurance works or how it compares with other risk-management tools such as savings and credit. The challenge is to make insurance more accessible to them not just physically and economically, but also intellectually – that is, to develop an insurance culture among the poor.



*“Studies have revealed that literacy level is not a strong factor in consumer-product education. Illiterate low-income people can understand insurance products. Considerable investment will be required in innovative approaches to consumer education and marketing to enhance appreciation of insurance. Lemmy Manje, Mennonite Economic Development Associates (MEDA) Field Project*

*Besides growth in numbers, other objectives that we will also need to address are affordability, depth of coverage, and diversity of providers. Ultimately, we want to make sure that low-income consumers have choice and protection-choice to opt in and opt out of policies, to pick and choose from a menu of items the package that is most appropriate to their needs, and protection from unfair pricing and discriminatory or exclusionary policies.*

Nhu-An Tran, USAID

[www.ilo.org/microinsurance](http://www.ilo.org/microinsurance)

The International Labour Organization (ILO) is the United Nations agency devoted to advancing opportunities for women and men to obtain decent and productive work in conditions of freedom, equity, security and human dignity. Its main aims are to promote rights at work, encourage decent employment opportunities, enhance social protection and strengthen dialogue in handling work-related issues.

The ILO is the only 'tripartite' United Nations agency in that it brings together representatives of governments, employers and workers to jointly shape policies and programmes.

The ILO is the global body responsible for drawing up and overseeing international labour standards. Working with its 182 Member States, the ILO seeks to ensure that labour standards are respected in practice as well as principle.

## MICRO INSURANCE INNOVATION FACILITY



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PROTECTING THE WORKING POOR



MICROINSURANCE INNOVATION FACILITY



International  
Labour  
Organization



A 2007 study revealed that 78 million people (less than 3% of the world's poor) in the least developed countries had some insurance coverage, mainly credit-life schemes. The Facility seeks to encourage the development of microinsurance so that – by the end of 2012 – 150 million low-income people will be able to make informed choices on how to manage risk and will have access to a wider range of insurance products that provide better value for money.

## MICRO INSURANCE INNOVATION FACILITY

Backed by a grant from the Bill & Melinda Gates Foundation, the ILO's Microinsurance Innovation Facility was established in 2008 to support the extension of insurance to millions of low-income people in the developing world, with the overall aim of reducing their vulnerability to risk.

### OUR OBJECTIVES

The primary objective of the Microinsurance Innovation Facility is to increase the availability of better insurance products for a greater number of low-income households.

To do this, we need to learn:

- to what extent insurance products can help low-income people to **manage risk**
- what **insurance products** are appropriate and how to provide them
- how to develop an **insurance culture** among the poor

These objectives involve engaging in activities aimed at stimulating the market for microinsurance among low-income people – activities that support the development of insurance products, the emergence of institutional models and partnerships, and the education of potential consumers on the utility and value of insurance.

### OUR PARTNERS

The Facility works to benefit low-income people in developing countries – who are most vulnerable to risk and least able to cope with crises – by collaborating with:

- **Risk carriers** such as insurance companies, semi-formal microinsurers and federations of microinsurance schemes
- **Delivery channels** such as NGOs, cooperatives, labour unions, employer associations, banks, insurance brokers and health care providers
- **Insurance industry actors** such as claim processors, technical assistance providers, training institutions, insurance associations, IT providers and database management services
- **Researchers** who are working in institutes, networks, universities and local resource centres

We are particularly interested in collaborating with institutions, both for-profit and non-profit, in Africa, Latin America and the Caribbean, Asia and the Pacific, and in the Middle East.



### OUR ACTIVITIES

The Microinsurance Innovation Facility engages in four sets of activities:

- giving **grants** to institutions to devise and test innovative approaches to providing better insurance products to low-income women and men in developing countries
- supporting the development of **technical assistance** providers and encouraging the demand for technical assistance
- supporting **research** on core issues related to insurance cover for low-income households
- **disseminating** information and lessons learned to key stakeholders

### INNOVATION GRANTS

Insurance innovation involves venturing into uncharted territory and taking risks in order to create benefits for the consumers, such as creating new mechanisms for premium collection, testing new ways of verifying claims, using technology to improve efficiency and experimenting with ways to educate consumers.

Over a 5-year period ending in 2012 the ILO's Facility will provide 40 to 50 innovation grants, totalling US\$18 million through biannual requests for applications. The grants can support insurance against any type of risk, but priority is given to products where demand exceeds supply, such as agriculture, health, life and property. The grants are intended to help institutions develop new microinsurance products and models by covering their start-up costs and some of the losses likely to be incurred during the project.

Projects can be new or already underway, but should be viable at the end of the grant period (max. 3 years) because either they have become self-sustaining or they can draw on other resources.

How do you apply for an innovation grant?  
➤ Contact us at [microinsurancegrants@ilo.org](mailto:microinsurancegrants@ilo.org)

### TECHNICAL ASSISTANCE

A priority for the ILO's Facility is to help improve skills in developing and delivering microinsurance products to the low-income market. Insurance companies have the insurance skills, but lack an understanding of the market. Development practitioners know the market, but lack expertise in insurance. Our technical assistance (TA) programme aims to build capacity and fill these knowledge gaps by:

- increasing the supply and quality of TA by identifying existing TA experts and nurturing the development of new ones through training, fellowships and mentoring
- encouraging demand for TA by providing grants to cover activities such as market research, business planning, premium calculation, product adaptation and performance assessment
- facilitating liaison between TA experts and the organizations needing their support
- building a community of practice through online resources such as a roster of TA experts, discussion fora and a tools library

Do you have the experience and expertise to become a TA provider? Does your organization need assistance in understanding microinsurance?  
➤ Contact us at [microinsurancetechassist@ilo.org](mailto:microinsurancetechassist@ilo.org)

### RESEARCH

The Facility's research programme studies and documents how to improve risk-management options for low-income households. It focuses on:

- assessing and understanding how insurance can help to reduce vulnerability among the working poor
- identifying best practices in promoting an insurance culture and providing widespread access to appropriate insurance products

The research agenda is demand driven and draws on past and current research projects. The programme also generates new knowledge, leading activities such as conducting case studies, thematic studies and impact assessments, providing research grants for academics and learning from joint action-research projects with the innovation grants.

Would you like to become a partner in improving learning on microinsurance?  
➤ Contact us at [microinsuranceresearch@ilo.org](mailto:microinsuranceresearch@ilo.org)

### DISSEMINATION

The Facility is committed to providing information and lessons learned to all key stakeholders, from insurers, investors, suppliers and delivery organizations to researchers, TA providers, donors and civil society organizations. It shares tools, success stories and key lessons in order to facilitate the replication and expansion of effective interventions through:

- publications, both print and electronic
- website and electronic fora
- workshops and conferences

We work closely with different media (print, electronic, radio and television) to publicize success stories to as wide an audience as possible and to promote a better understanding of the mechanisms and benefits of microinsurance.

Would your media organization be interested in stories about microinsurance or learning more about the ILO's Facility?  
➤ Contact us at [microinsurancemedia@ilo.org](mailto:microinsurancemedia@ilo.org)

