

Microfinance Opportunities

“Putting Clients First”

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Microinsurance and Disasters: Steps to Take to Mitigate Risk Next Time

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The Benefits of Insurance

Several weeks ago, in the immediate aftermath of the devastating Asian Tsunami, a television journalist interviewed a shopkeeper on the Sri Lankan coast. The woman had nothing left of her shop and no obvious resources to help her reopen her business. The woman said:

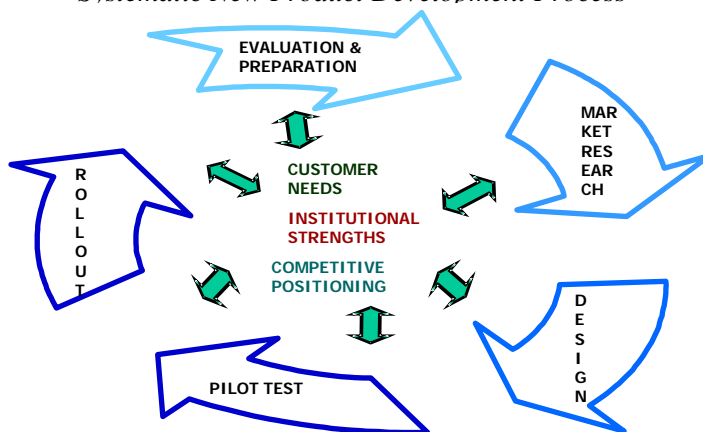
“I have lost everything, and I had no insurance. If I had insurance it would be easier to start again.”

We have all heard such stories over and over following the Tsunami. We know that insurance could have made a difference in helping the fishermen, the shop keepers, and households get back on their feet. We know the potential benefits of insurance, of better risk management, of protection in the case of a serious financial loss, of access to long term savings that can help when we are too old to work, and too weak to rebuild.

Low-income people live on the financial edge, where shocks are frequent occurrences. Few, if any have access to effective risk management options. The lack of adequate health care and insurance, significant death benefits, or property protection leads many to fall back into deep poverty when a crisis strikes.

Poor people, like all of us, can benefit from insurance, but only if they have access to the right products - products that are designed specifically for their market niche. This specificity relates to linking premiums to cash flow, providing demanded products, finding appropriate and efficient delivery channels, implementing effective controls, and setting premiums based on different costs as well as different mortality and morbidity rates.

Systematic New Product Development Process



To make this happen it is important not to rush in and offer some insurance product that can be implemented quickly. To date, downsized popular middle class insurance products have not proven particularly effective in this market. For insurance to be effective, it is a long-term proposition, and it is important that the products are correct for their markets at the beginning. Low-income people are a different market and they need risk management products that work for them. They do not need yet another ill conceived product that does not fit their needs, and may simply absorb their money without any benefit to them.

Designing the Appropriate Product

The introduction of microinsurance [see footnote] products should follow a formal process that ensures (as much as possible) that the product offered is one that is demanded in the market and fits with the long-term strategic plans of the institution(s) that offers the product. This process calls for the insurer and/or its agent to assess their needs and abilities, conduct market research, design a product based on the research and self-assessment, pilot test it, and

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when satisfied with the test, roll out the product. Each of these steps is informed by information from the institution, its clients, and the competition.

Arriving at the appropriate design requires an understanding of the demand for microinsurance and related products, both formal and informal. The market research begins by examining the major risks poor households face, the impact of these risks in the absence of insurance, and the vulnerability of poor households to these risks. Such an analysis of consumer behavior provides the information needed to develop a product concept that will best serve the needs of the low-income market. Demand studies help identify the key attributes of potentially effective microinsurance services for the poor such as coverage, affordability, timeliness and accessibility.

The market research will provide an understanding of what the low-income market demands to fill its risk management gaps. The self-assessment provides institutions with an understanding of their abilities and needs. Together, these form the building blocks of the new product. If there are to be linkages between the insurers and MFIs or others, this is when those relationships are clarified and formalized so that all parties can move forward together. A concept is developed, a prototype is tested in the market, and when satisfied with the results, it moves on to pilot testing.

Pilot testing is where we people actually pay for the insurance. This step requires formalizing the delivery structure – procedures manuals, manual and computerized systems ready, some staff trained, and a clear understanding of the objectives of the test. The pilot test assesses the product in terms of resource capabilities: can our staff market and manage this product, do the systems perform all functions properly, is there effective demand for the product. Since renewals are a high priority indicator of continuing demand, the pilot test should run over at least one renewal cycle. If the test proves satisfactory, the product can be rolled out. This process can be difficult for insurance where we are always looking for a larger risk pool. Following such a process will help to make sure that the products we develop are in demand and that we can sell and service them effectively and efficiently.

We see the need for risk management products every night on the news broadcasts. Without better risk mitigation tools, low-income people stand to suffer more and more hardship. We need to be sure that we develop and offer into the low-income market, products that actually satisfy *their* demands, and are structured financially and operationally to withstand the tests of time.

Resources

Michael J. McCord is with The Microinsurance Center and Monique Cohen is with Microfinance Opportunities. For more information on microinsurance, please visit the following:

- www.microinsurancecentre.org,
- www.microfinanceopportunities.org
- www.microsave.org
- www.microfinancegateway.org/section/resourcecenters/microinsurance/

Footnotes

The Working Group on Microinsurance, in their Preliminary Guidelines for Donors, notes that “microinsurance is the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. Low-income people can use microinsurance, where it is available, as one of several tools to manage risks.” These guidelines also note a preference for linking insurance companies with MFIs or others as a means of efficiently and safely transacting within the low income markets.