



MICROINSURANCE – A POWERFUL TOOL IN POVERTY ALLEVIATION

MICROENSURE IS THE WORLD'S FIRST INSURANCE INTERMEDIARY DEDICATED TO SERVING THE POOR THROUGHOUT THE DEVELOPING WORLD WITH AN APPROPRIATE AND AFFORDABLE RANGE OF INSURANCE PRODUCTS.

- A multitude of risks threaten to derail any progress the poor have made to work their way out of poverty. Microinsurance provides the poor with a safety net which stops them slipping backwards into poverty; in return for regular premiums insurance products provide protection against specific risks.
- The Bill & Melinda Gates Foundation provided MicroEnsure with a \$24.25m grant in 2007 which has been instrumental in our rapid scale up to provide a range of life, health, property and weather index products to millions of poor people across Africa and Asia.
- Until recently, there were very few formal insurance solutions available to the poor, and policies were too complicated, out of line with the specific needs of the poor, and just too expensive. In many cases, unfortunate experiences with inappropriate insurance products have led to a lack of understanding and mistrust of insurance.
- 2.1 billion people live on \$2 a day or less. They face daily hardships like poor nutrition, short life expectancy, poor education, and sub-standard housing. In areas where HIV/AIDS and Malaria are prevalent, they often cannot afford the healthcare they desperately need. When there is a death in the family, the cost of a funeral can amount to several months' earnings. In rural areas, drought can cause crop failure that brings starvation and even death.
- MicroEnsure reaches out to large numbers of the poor with low cost insurance products designed to meet their needs. We work with distribution partners such as microfinance institutions, rural banks, and SACCOs, but increasingly we partner with humanitarian organisations, faith-based networks, professional organisations, and many other social aggregators. At the same time, we negotiate with insurance companies on behalf of our clients to keep premiums to a minimum. The aim is to achieve sustainability for product distributors, insurance companies, and our clients.
- Key to minimising the cost of microinsurance is the sophisticated MIS system employed in our back office processing that tracks details of clients covered, collects premiums, and administers claims.

THE MICROENSURE BUSINESS MODEL

To bring insurance effectively to the poor, we see three tasks that need to be accomplished.

The first task is carrying the risk. We believe that existing insurance and reinsurance companies are best placed to do this but in some cases no willing insurance carrier can be found. MicroEnsure is pioneering the use of cell captives which are special underwriting vehicles used to carry health insurance risk in Africa and further afield.

The second task is that of the front office – the sales platform. We partner with those organisations that have effective outreach to the poor such as MFIs, NGOs, and retailers.

And the third task is the back office – keeping track of the insured's details, premiums, and claims. For this we have developed a very sophisticated MIS system. This is the key to keeping costs at a minimum. The back office also provides product development for the risk carrier, training for the front office, as well as financial education for the clients.

MicroEnsure derives revenue from two sources; the first is commission income when we work as an insurance intermediary in partnership with an insurance company and a front office partner such as a microfinance organisation. The second revenue source is generated by insurance companies outsourcing their existing back office operations to MicroEnsure.

Insurance Company
Reinsurance Company
Cell Captive



Microfinance lender
NGOs/Faith-based
Retailers
Avon model

Product design/negotiation
Training/client education
Data capture/reporting
Claims servicing



WEATHER INDEX CROP INSURANCE – A POWERFUL TOOL TO ALLEVIATE POVERTY IN RURAL ECONOMIES

According to The World Bank World Development Report 2008, Agriculture for Development, GDP growth originating in agriculture is at least twice as effective in reducing poverty as GDP growth originating outside agriculture; 70% of the 2.1 billion global poor are rural and agriculture is a primary source of rural livelihoods.

Weather index crop microinsurance provides a safety net to mitigate the financial risk for subsistence farmers, but has proved invaluable in motivating rural lending to this sector for improved farm inputs, leading to increased yields, higher incomes, and development of rural economies.

WHAT IS WEATHER INDEX CROP INSURANCE?

Smallholder farmers in rural areas are subject to crop damage caused by a variety of adverse weather conditions including drought, excess rainfall, and typhoons (also known as cyclones). They have been excluded from the banking system as rural banks and MFIs were concerned that crop failure would result in an inability to repay the loan. But when farmers are insured, they can access credit to purchase farm inputs. With improved seed and fertilizers, farmers' yields can increase by 200% or more. The ability to grow higher value crops and move away from a largely subsistence agriculture greatly improves food security and decreases rural vulnerability to climate change.

Traditional yield-based crop insurance is too difficult to provide to smallholder farmers as the size of their plots does not justify sending an assessor to check on their yields. Weather index crop insurance is a powerful solution to this problem.

Typical weather index crop insurance provides compensation to smallholder farmers when drought or other adverse weather strikes during a growing season. The mechanism is simple, easy to administer, and has an automatic payout process that does away with the need for farmers to file a claim or go through an expensive and time-consuming loss verification process.

The trigger can be a rainfall deficit or excess as measured at a local weather station, or in the case of typhoon insurance, satellite tracking of a typhoon's path and wind speed. Farmers are required to be within a specified distance of the weather station or typhoon's track to be covered by the insurance.

MICROENSURE'S EXPERIENCE IN SUB-SAHARAN AFRICA AND ASIA

MicroEnsure are technical advisors and project partner to the World Bank Commodity Risk Management Group in Africa. We started the first weather index crop insurance pilots in Malawi in the 2005/6 growing season. The programme has continued in Malawi and also extended to maize farmers in Tanzania and tomato farmers in Rwanda in 2009.

A pilot has been launched in the Kolhapur district of Maharashtra in India covering 4000 smallholder rice farmers against rainfall deficiency and drought. An innovative typhoon insurance pilot has been launched on Panay Island in the Philippines, again covering smallholder rice farmers.

We have plans to launch a drought product in the Iloilo and Roxas City areas in the Philippines as well as drought insurance in Ghana that will cover rice, cocoa, and maize. A detailed assessment of the potential for weather index insurance in Uganda is well under way.

Crop insurance is not a panacea. There must be a sustainable value chain for the crops in the marketplace. It can only work within existing supply chain mechanisms and needs sufficiently developed infrastructures and historic weather data. The effects of other agricultural risks such as low selling price must be factored into the complex equation.



Maize planted at the same time on adjacent farms. The farmer on the left used fertilizer; the other didn't



HEALTH INSURANCE – MOST DEMANDED BY THE WORLD’S POOR

Research has shown that access to health insurance is most demanded by the poor. Without access to health insurance, the poor need to take on debt or sell assets in order to meet the cost of hospital care. It has been estimated that 20 million people a year, or 24%, of those receiving medical treatment end up below the poverty line as a result of the high cost of treatment (World Bank, 2002).

Providing the poor with access to affordable health insurance is hugely challenging. In order to succeed, a product must have minimal exclusions so it is easy to understand, provide access to cashless treatment, have a range of hospitals that are easy to reach, be able to eliminate fraud by the healthcare provider and user, and be capable of handling large volumes of claims.

The key to success is in finding a willing underwriter and a highly capable third party administration [TPA] system. In the MicroEnsure model, providing a low cost TPA mechanism is absolutely essential in order to enable claims to be paid on a “cashless” basis. The ‘risk premium’ is possible to calculate using data on the average cost of treatment and the ailments that are most common, but costs to clients will be heavily inflated if the TPA mechanism is too expensive or fails to control fraud, and as a result it becomes the backbone of providing a successful and affordable health product.

Outside of India we have found it hard to locate a willing insurance company to carry health insurance risk. MicroEnsure has partnered with a global insurance company to establish a special facility which enables MicroEnsure to design products, underwrite and pay claims as they arise which means we can now design and implement health insurance products globally.

MicroEnsure has designed policies which are compulsory or voluntary for borrowers of the MFI, cashless at point of service, cover the borrower as well as spouse and children, have minimal exclusions and cover maternity and pre-existing conditions from day one of the policy. MicroEnsure launched its first cashless in-patient health insurance pilot in India in 2008. Remarkably, this costs as little as \$8 a year for a family of four. The project is now ready to scale up. In 2010, we will start a health insurance product in Antique Province in the Philippines, and we have partnered with the Anglican Health Network to launch a pilot in Tanzania.

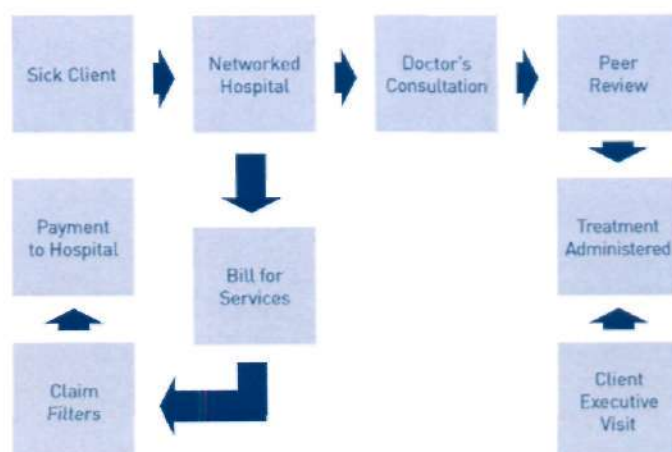
THE ROLE OF THE TPA IN HEALTH INSURANCE

The first step is enrolment of clients, conducted by the MFI or other distribution partners. Clients are issued with ID cards, complete with photographs, and these are presented when clients attend a network hospital for in-patient treatment. The examining doctor writes a consultation report of his diagnosis which is submitted electronically to the TPA for a peer review by a panel of doctors.

The peer review process generates an agreement that details the agreed treatment and costs that can be claimed by the hospital. Simultaneously, the agreement is sent to a client executive who is employed by the TPA and who will visit patients on a random basis to ensure the patient is in fact the insured person and that the level of service provided is adequate.

The hospital issues a bill to the TPA where it is run through claims filters including legitimacy of the coverage, treatment protocol, and correct drug patterns. Once the bill is approved a cheque is issued to the hospital – the target payment time is six days. The system is web-based with access to management reports and details of the individual client to any authorised person.

THIRD PARTY ADMINISTRATION



AN EXPANDING RANGE OF PRODUCTS

MicroEnsure works with its local insurance company partners to develop an expanding range of products to meet the specific needs of the poor. These include:

- **Credit life:** the most basic of products protects the lending institution against the inability of the borrower to repay the loan as a result of death or disability.
- **Term life/funeral:** provides a fixed payout upon the death of the client, spouse, or children during a fixed period. The payout is normally designed to pay for the cost of a funeral and provide a sum to the bereaved family to provide for immediate needs. This product can also be extended to include coverage for disability on a permanent or temporary basis as well as critical illness coverage.
- **Weather indexed crop:** lending to smallholder farmers is often considered too risky due to the possibility of a climatic event such as a drought making it impossible to repay a loan. Crop insurance products can be designed that use an index such as rainfall to determine if and when a payout is due. This product protects the farmer and the lender and so enables rural credit programmes to expand with reduced risk.
- **Health:** by working with health management organizations, MicroEnsure can provide full in- and out patient coverage including access to anti-retroviral drugs for individuals as well as families.
- **Property:** cover for losses arising from a range of perils including fire, natural disasters, flood, wind and even theft. This product is especially useful for microfinance lenders providing secured loans to individual borrowers.
- **Package policy:** this combines a number of products to meet a specific need; an example from Uganda uses credit life, funeral insurance, and property insurance combined in a single microfinance "care" policy. The benefit is easier administration and a lower cost for clients.
- **Direct to the public:** a number of products are being designed to be sold directly to the public using various points of sale. These products normally require technology such as cell phones to reduce the transaction costs to a sustainable level.

PARTNER WITH US

MicroEnsure is committed to expanding its range of products in the developing world. We are seeking partners from both public and private sectors throughout Africa and Asia. We are interested to hear from microfinance institutions, government ministries and departments, credit cooperatives, rural banks, trade unions, faith-based groups, professional associations, agricultural input providers, and other social aggregators.

If you would like to discuss opportunities to form lasting alliances in delivering microinsurance products to the poor and the currently unserved markets, please contact:

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