

GENDER DIMENSIONS OF MICRO-INSURANCE: QUESTIONING THE NEW BOOTSTRAPS

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This is a draft paper for further discussion. Comments and suggestions to the author are very welcome to L.Mayoux@ntlworld.com¹

Micro insurance: the new bootstraps

Micro-finance has been promoted as a key strategy for poverty reduction. It is seen as the ideal self-help strategy whereby poor people can help themselves through productive use of loans and savings. Through their own efforts therefore they are seen to be able to pull themselves up out of poverty. Micro-finance clients are however particularly vulnerable to a range of risks. These not only threaten the livelihoods and wellbeing of clients but also affect loan repayment and savings deposits and hence the sustainability of micro-finance programmes.

Since the end of the 1990s an increasing number of microfinance institutions have been trying to develop insurance products for their clients to reduce this risk including:

- health and life insurance
- livestock and crop insurance
- property insurance
- compulsory insurance against loan defaults

SEWA in India has pioneered provision of micro insurance to its members (!!insert link to SEWA website). BRAC's Grameen Kalyan (Welfare) has been implementing a health program based on a combination of insurance premiums and co-payments made at the time of receiving treatment. Other examples include NHHP/FINCA Uganda, UMASIDA, SEWA and GRET (McCord 2001). In some contexts indigenous mechanisms for informal insurance exist.¹ For example in South Africa poor people combine resources from ROSCAs, other informal savings and credit arrangements and insurance to cover costly funeral expenses (Roth 2001). The ILO's Social Finance Unit, supported by the World Bank, is creating an experimental reinsurance scheme for community-based health insurance schemes.

However serious questions need to be asked about whose interests current approaches to micro insurance serve. Debates also have gender dimensions which had hitherto been ignored although women are often key target groups for micro insurance schemes.

¹ This paper builds on work for a DFID-commissioned paper: Impact Assessment of Microfinance: Towards a Sustainable Learning Process which can be found on the Enterprise Development Impact Assessment Service (EDIAS) web site www.enterprise-impact.org.uk Responsibility for the views expressed however lie with the author.

Why Micro insurance?

Micro insurance is essentially:

a financial service which uses *risk pooling* to provide compensation to low income individuals or groups that are adversely affected by a specified risk or event (Brown 2001).

Vulnerability to risk is a key aspect of poverty. Health problems, death of livestock and natural disasters all affect the poor disproportionately. Women also face specific types of risk because of gender discrimination:

- unequal control of property makes them extremely vulnerable in cases of divorce or widowhood.
- lower levels of income which makes them less able to invest in disease resistant strains of livestock, reliable equipment and/or to afford veterinary care
- responsibility for caring for the sick which means that ill health of children and partners affects their own ability to earn income
- higher levels of susceptibility to certain types of disease including HIV AIDS and also complications surrounding pregnancy and childbirth
- physical vulnerability which makes their property particularly vulnerable to theft and crime
- women's high preponderance in informal sector enterprises makes them particularly vulnerable to harassment by the authorities including confiscation property and destruction of market stalls

At the same time their lower levels of income make them less able to afford insurance payments.

Different types of micro insurance: the logic of the market?

Vulnerability to risk affects not only poor people, but also MFIs dealing with them through their adverse impact on loan repayment rates and stability of savings deposits for MFIs. MFIs attempt to minimise risk in ways which necessarily conflict with the interests of needs of clients.

Key issues in current discussions have been the relative merits of different types of institutional arrangements for different stakeholders²:

² These points have been adapted from points made in Brown 2001 and by Jimmy Roth in E-mail discussion on devfinance listserve.

MICRO-INSURANCE: REQUIREMENTS AND CRITICAL CONSIDERATIONS**WHAT IS INVOLVED?**

Actuarial analysis (pricing): managers need to be able to *predict what future claims will be* with a reasonable degree of accuracy to ensure that premiums are high enough to cover future claims. Insurance premiums also need to establish *reserves* to protect the insurer against unexpectedly high claims. *Reinsurance* ie the shifting of part or all of the insurance risk originally written by one insurer to another insurer is also used to limit risk in both new and established lines of business.

Marketing: for a programme to be successful, the MFI must also educate prospective clients about the potential benefits and cost of the product and ensure that consumers know how to 'use' it (e.g. how to make claims). Marketing of insurance is also less straightforward than credit or savings because clients must be willing to continue to pay premiums even when they are not receiving any direct benefits.

Underwriting: the process of verifying whether insurance coverage should be provided to a particular potential policyholder. Typically this involves confirming that the potential policyholder meets the eligibility criteria determined by the MFI eg through documenting all illnesses existing when a health insurance policy is purchased.

Investment management: the difference in time and value between receipt of premiums and payment of claims and expenses gives an insurance plan the opportunity to earn investment income. But this must be balanced with the need to maintain sufficient liquidity to meet claims and expenses.

Claims management: verifying whether a claim should be paid out, weeding out fraudulent claims and ensuring that genuine claims are processed quickly.

Product management and administration: co-ordination and communication among all of the above activities is crucial to the smooth operation of an insurance product. This requires effective IT and management systems.

Regulatory compliance: Insurance regulations mandate that providers maintain substantial reserves, report regular financial results and have trained underwriting and sales staff.

CRITICAL CONSIDERATIONS

- **Size of clientele:** insurance works by sharing risk across the large population.
- **Balance of risk/controls against adverse selection:**
 - risks covered by insurance should only be able to affect a relatively small portion of the total insured population at any given time.
 - the pool of insured households should include both high- and low-risk cases so that the average risk occurrence is similar to the average in the population at large.
- **Specified risks versus comprehensive coverage:** there is an inherent trade-off between size of premiums and breadth of coverage and/or percentage of costs covered. Some policies only against specific risks for which the chance of loss can be calculated. Others give broader coverage but only pay a percentage of costs incurred by the client.
- **Controls on moral hazard:** policyholders ability to influence whether the risk actually occurs must be limited or controlled. These risks are especially high in the provision of health and property insurance.

Direct provision of microfinance by specialist MFIs has a number of advantages. A local MFI with a good understanding of its target group can design products that closely meet their clients needs. A local MFI with a longstanding and positive relationship with clients will be able to inspire confidence in a new insurance product and the ability to deal promptly and sensitively with claims. Savings and credit groups may provide cost-effective delivery channels for both MFIs and clients, increasing coverage and promoting good relations to decrease false claims.

There are also costs. Risks may be increased If the insurance side of the business is not separate from the savings and credit side massive insurance losses may cause insolvency in an otherwise successful savings and credit operation³. The skills required to run micro insurance scheme are very different to those required for a lending and/or deposit taking institution. The skills involved in assessing credit worthiness (e.g. project appraisal, previous credit history assessment) are very different from those required to design and manage insurance schemes (e.g. setting premiums. forecasting losses, investing the fund safely). Scale and client diversification are crucial in insurance schemes to protect against co-variant risk. Not all MFIs have sufficient clients. In Africa in particular MFIs often have only a few hundred members all located in an isolated, sparsely populated area. Access to insurance may increase moral hazard. For example a small scale cattle farmer will pay less attention to husbandry safe in the knowledge that should one of their cattle die that was bought on credit, the insurer will pay them out and they will be able to repay the loan. Insurance may also establish perverse incentives for MFI loan officers to be less careful in their appraisal of credit worthiness, if they know that insurance will repay them if their clients do not.

Partnership between MFIs for community groups and formal insurance providers also has a number of advantages. For the MFI: limited initial capital investment and low variable costs; rapid product launch and scaling up; compliance with legal and regulatory requirements; potential for stable revenue streams from commission; opportunities to learn the business and offer new product to clients and decrease risks of loan default without taking on the risks of insurance itself. For the formal insurers: access to new markets; access to clientele with verifiable financial records; reduced transaction costs in serving a new market; improved political or public image; compliance with licensing requirements in some countries (e.g. India) which stipulate that an insurer maintains a certain portion of its portfolio in low-income areas. For clients: preliminary evidence suggests this model allows greater insurance coverage at a lower cost benefit MFI designs and provide coverage of its own.

Disadvantages on the other hand include the limited availability of potential partners in some countries. *For clients there may be no coverage* of complex risks. Formal insurers may place little importance on processing very small claims requests unless a specific process is established. *For the MFI* it may be difficult to negotiate an equal partnership. Clients may come to see the MFI as endorsing the insurance product or in

³ For example banks in the USA and Canada cannot sell their own insurance policies. Regulators felt that combining the two functions would create a situation in which the managers of banks or insurance companies would have the ability to sustain one side of the business if the other side was performing badly. This could place savings or insurance benefits at risk. (Jimmy Roth E-mail contribution to devfinance listserve)

the worst case scenarios may not realise that the insurance product is actually provided by a different institution. This problem will be compounded if commission income for selling policies is significant and MFI staff are incentivised to sell as many policies as possible. This could introduce problems of conflicting interests when claims are made and disputes arise. The existence of insurance may reduce the demand for MFI savings and credit products.

Promotion of community-managed programs, including building on informal systems where these exist is the approach favoured by organisations like ILO. Community-managed self-help is seen as an important and essential complement to state provision of social welfare services⁴. However these systems are not exist everywhere. Even when they do exist they may well exclude the very poor because they have less resources to poor. Moreover benefits can only be commensurate with community resources which in many cases may be very limited.

Thus all arrangements have advantages and disadvantages the balance of which will depend on the capacities of MFIs and formal insurance providers in any one particular context and the specific needs and prevalent risks of particular target client groups.

Is micro insurance the solution?

Although it is undoubtedly true that both poor people and poverty targeted MFIs need to decrease risk, micro-insurance is not necessarily the solution:

- Many MFIs run insurance programs that are worryingly close to illegality. In some cases this is because of an unfavourable regulatory environment, in others because MFIs are not well-equipped to run cost-effective and reliable micro-insurance schemes.
- Some MFIs promote badly designed insurance in order to supplement savings as a means of hedging a risky loan portfolio. Such schemes are likely to collapse taking all the premiums with them.
- several private insurers, particularly in different parts of Africa, have become profitable by selling a good volume of policies to poor households. In many cases these new policyholders did not understand what they were purchasing or how to make a claim and did not therefore benefit from the schemes (Brown 2001).

Importantly the market logic makes it extremely difficult for programs to both take account of their own risks and provide clients with the types of insurance that they need:

- many of the most serious risks eg floods, AIDS/HIV and other epidemics are so predictable and large scale as to be uninsurable at reasonable rates.

⁴ For further information see ILO web site
<http://www.ilo.org/public/english/protection/socsec/publ/index.htm>

- there is an inherent trade-off between levels of premiums and comprehensiveness of coverage. For people have less income to contribute towards premiums and much more complex types of risk.

Many insurance programmes have experienced high levels of drop-out as people have been unable to keep up instalments in times of crisis (McCord 2001). Money paid for previous instalments and which could have been used for savings and production investment is therefore forfeited.

Again there are gender dimensions to these questions. For example:

- while it may be very important for women to be able to contribute to life and health insurance schemes for themselves and their husbands, insurance may not be the best solution where marriages are unstable. In this case women risk paying premiums, maybe out of their own consumption and investment funds, maybe to ensure loans which are used by men and then forfeit these premiums if they are unable to keep payments up following divorce and/or cannot claim on the death of ex-partners.
- women have high levels of illiteracy than men and lower levels of physical mobility in many cultures and may therefore be less able to understand policy conditions and follow-up claims unless these factors are taken into consideration. They may therefore be more recently deceived into taking up schemes which are not to their advantage and also less able to take advantage even of good insurance schemes without considerable follow-up by insurance providers.
- health problems which affect women for example pregnancy are often exempt from insurance policies

Finally there are broader issues about the degree to which poor women and men should be required to take out insurance to decrease sources of vulnerability which should be met by public provision of health and welfare safety nets and/or employer-funded schemes:

- There are dangers that the availability of insurance may make private health practitioners increase charges and/or deny treatment to those without insurance. These issues are currently subject of considerable debate in Northern industrialised countries.
- There are also questions to be asked about whether very women than men people should be bearing the costs of risks like flooding, natural disasters and epidemics caused by failures by government and international agencies to address the underlying causes of climate change, environmental damage and spread of disease.
- The poorest and most disadvantaged are generally excluded from insurance provision. They will therefore be at serious risk if promotion of micro-insurance is used as a pretext for decreasing public welfare provision, health and safety provision at work or donor funding in emergencies.

The whole thrust behind promotion of micro-finance has been the search for a self-help strategy for poverty reduction which has limited costs for donors and avoids difficult questions about wealth redistribution and basic service provision. Micro-insurance, like micro-finance in general, is only useful as part of a broader programme to address the underlying causes of risk and vulnerability facing poor women and men. It is doubtful whether it can both be financially sustainable and really address the needs of very poor people. Where the prime motivation is decreasing risks for micro-finance programmes rather than real concern for the vulnerability of clients micro-insurance is extremely pernicious. Poor people are not only forced 'pull themselves up by the bootstraps' through productive investment, and save to buy the bootstraps, but also to bear the risk of the bootstraps snapping! Unlike loans and savings however, if the straps snap and they cannot keep paying instalments then there is no safety net left.

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