

# MARKETS IN MOTION

developments that matter in financial markets

## Microinsurance

“Policy makers can deploy multiple approaches to develop the Insurance sector, including adopting specific microinsurance regulations, providing financial support, and sponsoring insurance schemes targeted to the extremely poor population.”  
**Swiss Reinsurance Company**

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#### Introduction

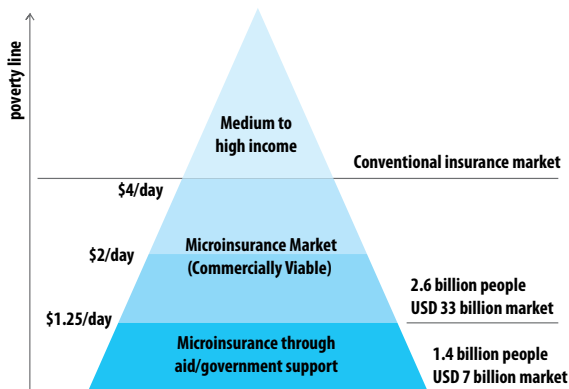
Microinsurance refers to insurance products especially designed for low-income individuals. The premiums and coverage are kept at a low level in order to make the products affordable and attractive to those policy holders, yet remain commercially viable and sustainable. Currently, the risks covered by microinsurance are heavily tilted towards credit life insurance, but the market could expand to cover areas such as health, agricultural insurance, term life insurance, affordable pension products and other savings products.

#### Financial Inclusion

By reaching many individuals, who were formerly excluded from insurance, and thereby reducing the vulnerability of low-income individuals and protecting their income streams, microinsurance helps to improve social stability and supports broad-based economic development. For insurers, microinsurance creates an opportunity to tap new markets and yet another revenue and income stream.

#### Global Market Potential

The microinsurance market is estimated to generate premiums of up to \$40 billion. Over the last decade, insurers, NGOs, and community organizations have launched microinsurance programmes across product lines and major markets. The key drivers supporting this activity's growth have been increasing microfinance penetration (in particular microcredit), the active involvement of the government in certain markets and need-based product offerings. The Asia-Pacific region is the fastest growing and the largest microinsurance market. Microinsurance has also grown considerably in African and Latin American countries despite these being relatively smaller microinsurance markets at present.



Sources: Swiss Re Economic Research & Consulting, PovcalNet. The online tool for poverty measurement  
Developed by the Development Research Group of the World Bank (<http://research.worldbank.org/povcalNet/>)

#### Global Insurance Market

The advanced economies account for the bulk of global insurance premiums. Europe was the most important region with premium income of \$1,611 billion in 2009, followed by North America, \$1,239 billion, and Asia, \$989 billion. The top four countries accounted for around 55 percent of premiums in 2009. The US and the UK alone accounted for 36 percent of world insurance, well above their 7 percent share of the global population. Emerging markets accounted for over 85 percent of the world population but generated only around 10 percent of premiums.

#### Insurance Outreach in India

Importance of microinsurance is undeniable in India, where a large percentage of the population lives below poverty line. Most of the people in this segment are illiterate and their level of awareness about insurance is very low. In order to facilitate penetration of microinsurance to the lower income segments, IRDA has formulated the Microinsurance Regulations 2005, which helped the distribution of insurance products that are affordable to the rural and urban poor and enabled microinsurance as an integral part of the country's wider insurance system.

Insurance Outreach in India			
Insurance		2000	2010
Penetration	Premium/GDP (in %)	2.32	5.20
Density	Premium/Population (in USD)	9.9	54.3

Source: Annual Report 2009-10, IRDA

Microinsurance – Performance 2009-10		Rs in mn	
Microinsurance	Policies (in mn)	Premium	
Individuals	2.98	1,582.2	
Group	16.84	2,434.1	

Source: IRDA

#### Market Potential and Challenges

While credit life, a mortality cover bundled with microcredit, is the largest selling microinsurance product, there is a strong need for a higher and broader level of protection that can be met with savings/term life, health and agriculture microinsurance. Some of the challenges that microinsurance faces are: insufficient infrastructure, the absence of specific regulatory provisions for microinsurance, and the lack of exposure and risk data. Insurers must also find suitable partners for distribution and claims management. Products must be adapted to client needs as well as the financial background of the prospective microinsurance buyers.

Contributed by M Ravindran

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