Microinsurance

Three questions put to...
Her Royal Highness
Princess Máxima
of the Netherlands,
United Nations
Secretary-General’s
Special Advocate
for Inclusive Finance
for Development

H.R.H. Princess Máxima of the Netherlands being presented Volume II of the compendium “Protecting the Poor” by Craig Churchill, Chairman of the Microinsurance Network. As the UN Secretary-General’s Special Advocate for Inclusive Finance for Development, an important role to which Princess Máxima was appointed in 2009, she promotes worldwide access to financial services. Since June 2011, she has also been Honorary Chair of the G20 Global Partnership for Financial Inclusion.

What do you think is the role that microinsurance can play to fight poverty?

In my work on financial inclusion, I have seen the devastating impact of unexpected shocks on individuals and entire communities. When a family can no longer earn income or have huge expenses they tend to sell productive assets, pull children out of school, or take expensive loans in order to get the care they need or hold on to what little they have. As a result, daily priorities such as food, education, and shelter suffer, and the long-term consequences are dire. In fact, an estimated 100 million people fall into poverty annually due to healthcare costs.

This is where microinsurance has so much potential. Weather-indexed insurance cannot prevent droughts or floods that destroy crops. But it can mitigate the impact in future seasons by replacing seeds and fertiliser. Home insurance can help families rebuild after fire, floods or mudslide. Health insurance can cover costs of hospital, doctors and medicine, and enable a worker to recover from an accident without having to sell productive assets or take an expensive loan or just do without. The impact of this can be dramatic. In Mexico, until the late 1990s nearly 7% of families were dragged below the poverty line each year by medical emergencies. By 2010, this had fallen to less than 3% following the introduction in 2004 of a government insurance programme, Seguro Popular, to create universal access to healthcare.

During the microinsurance research conference in Twente in April 2012, the ILO and the Munich Re Foundation launched the second volume of the microinsurance compendium. From your perspective, what is the value of such a publication in the attempt to increase knowledge and reduce financial illiteracy?

The good news is that more insurance reaches lower-income populations every day, and there is so much interest. But, we have also seen that some products and efforts have been less successful than hoped. Or they are too costly, or are not being taken up, or do not have the desired impact. Calling attention to issues and sharing information, best practices and data about what works — and what does not — is so very important to changing this. This is where publications like the Compendium come in, as well as academic studies, reports from pilot programmes and also in-person conferences and seminars.

Research demonstrates that trust is critical in financial services, including microinsurance and especially in new markets. Financial literacy enables clients to make informed choices and helps to align expectations — and thus builds trust. Understanding this, successful providers treat client education as an integral part of microinsurance. This can include more formal education programmes as well as assistance from agents, careful design of products to consider local context, culture and needs, and marketing. Financial education is equally a responsibility for governments and policy makers. I hope that publications and research of all kinds will look into best practices and policies to achieve financial education.

What are the most pressing barriers that we need to overcome in the next three to five years to increase the access to microfinance and microinsurance substantially?

For all the good news, microinsurance still faces challenges, particularly in making many more products more widely available in more countries. To do this, we need to meet client demand, build trust and create impact. Only when we truly understand demand will we design products that have the right features, the right prices, and the proper delivery mechanisms. When products are valued by clients, they will be used. There is a Dutch saying: trust arrives on foot, but leaves on horseback. So, it is very important that microinsurance steadily delivers real value and grows carefully in order to build trust in both the products and the companies.

It is also important that microinsurance consider impact, which is not necessarily the same as demand. We see this, for example, with preventative healthcare, which is often not in big demand, but can have a big impact. It is one reason why countries like Brazil, Colombia and Mexico are making cash transfers to poor households conditional on visiting health clinics. Conversely, there are insurance products that are in demand, but have little social-welfare impact — such as cover for loss of mobile phones.

Finally, we need to move from pilots to scale and sustainability. This will not happen by addressing microinsurance in isolation. It requires policy makers and providers in insurance and social protection to work with each other and with stakeholders in agriculture, environment, health, communications, and financial services. For example, partnerships among mobile phone companies, insurance providers and electronic payment systems, mobile money and agent banking are making small, regular premium payments convenient and affordable to poor people.