MICRO- INSURANCE AS BEDROCK FOR SOCIAL ECONOMIC DEVELOPMENT OF WEST AFRICA

BEING A PAPER PRESENTED

BY

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LAGOS

Distinguished ladies and gentlemen,

May I first of all start by thanking the organizers of this education conference for bringing to fore a subject matter I have been nursing for quite some time…'Micro-insurance'".

My paper is supposed to set the tone for in-depth discussions of the subject matter, "Micro- Insurance as Bedrock for Social Economic Development for West Africa" and going by the caliber of speakers slated to present papers at this conference, I believe we are in for an exciting time here.

INTRODUCTION

During my presentation I shall be referring to the Nigerian situation more often than the West African sub-region as I believe in terms of insurance volume whatever happens in this country would have an influence in the sub-region.

I would first of all like to look at micro-finance and micro-insurance together since micro-credit and micro-insurance are off-shoots of micro–finance and therefore we may need to understand what micro-finance is all about.

I will subsequently look at case studies of a few developing countries that have gone far in micro-finance and micro-insurance and compare same with the situation in Nigeria. Issues of legislation, product development, and consumer education would be looked at within the context of the way forward.

The Nigerian insurance market though second only to South Africa in the African Continent has tended to fall behind in areas concerning new innovations.

Nigeria with a population of 140million today should be the leading market in Africa. In order to actualize this and in line with the vision (FSS 2020) the National Insurance Commission has initiated programs that would lead to this goal and to recap, the Commission has so far undertaken the following:

- ✓ the Capitalization and consolidation exercise
- ✓ Release of guidelines for consortium bidding in the oil and gas industry for enhanced capacity attainment.
- ✓ Flag off of sections 64 & 65 of the Insurance Act 2003(insurance of building under construction and insurance of public buildings) consultants have also been engaged to fashion out the modus operandi for implementation.

We are now gearing towards micro-insurance and in my numerous speeches i have harped on the need for Insurance Companies to spread their operations to the rural areas for the benefit of the rural populace.

Micro-insurance has gone far in the Asian countries whilst back here in Africa, countries such as Kenya and Uganda have taken giant strides in that direction.

NAICOM is therefore ready and prepared to give all necessary support for this aspect of insurance which will create wealth and alleviate poverty in our Nation which is also one of the 7 point agenda of the Federal government.

Our desire in the Commission is to drive the industry in line with FSS 2020 that is, “To develop an insurance sector that drives and protects the economy through effective and efficient market structure and to become the insurance market of first choice in Africa noted for high level capacity transparency, efficiency and safety and attain the 15th position in the world insurance premium generation by the year 2020”.

Let us now look at the concept micro-finance and micro-insurance as the two are linked.

MICRO-FINANCE:

Micro-finance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions .Three distinct features can be associated with micro-finance.

These are:-

(i) Smallness of the loans advanced and the savings collected
(ii) Absence of asset based collateral; and
(iii) Simplicity of operations

Robust economic growth cannot be achieved without putting in place well focused programs to reduce poverty through empowering people by increasing their access to factors of production especially credit.

In Nigeria, 35% of the economically active population is served by the formal financial system whilst the remaining 65% are excluded. These 65% are served by informal financial sectors such as NGOs (MFI) micro-finance

Institutions, money lenders, friends, relatives, credit unions Esusu etc.

Government in its wisdom then put in place a micro finance policy in order to enhance the provisions of diversified micro-finance services on a long term sustainable basis for the poor and low income groups. Notably, amongst such government programs are the establishment of (NACDB) Nigerian Agricultural and Cooperative Development bank,(NDE) National Directorate of Employment, Defunct (PBN) Peoples Bank Of Nigeria,(CBs) Community Banks now (MFIs),(SMEEIS) FEAP,and NAPEP with the mandate to provide financial services to the poor and alleviate poverty. Subsequently, with the launching of the micro-finance Policy Regulation and Supervisory Frame work for Nigeria in December 2005 by the CBN, the micro-finance market has attracted new participants due to the expanding informal market and by extension also, micro-insurance since they are linked together.

MICRO-INSURANCE

Micro-insurance is the tool of micro-finance developed to alleviate poor families and low-income people from specific perils. It basically involves all principles that insurance in general should have but with products, coverage, premiums and services designed with these people in mind.

Micro-insurance is characterized by low premium and low coverage limits and sold as typical risk-pooling and marketing arrangements and designed for low income people and businesses not served by typical social or commercial insurance.

Churchill defines micro-insurance as; “micro-insurance is the protection for the low -income population against specific dangers in exchange for regular payments of proportional premiums to the probability and costs of the involved risks”.

Micro-insurance is therefore designed with the objective of protecting poor people and also designed with the environment that surrounds them, their needs, and possibilities. It is necessary that the product is developed for people ignored by traditional insurance markets.

Micro-insurance has the following characteristics amongst many others:-

(i) Low income population as target
(ii) Protection is for specific risks
(iii) Payment of proportional premium in relation to the probability of the risk
(iv) Policies are easy to understand and straight forward
(v) Premiums are low and maximum sums insured are low.
(vi) Flexibility of premium payment
(vii) Mass consumption (policy holders)
(viii) Claims documentation easy

INTERGRATION OF MICRO-FINANCE & MICRO-INSURANCE

Micro- finance activity leads to the spread of micro-insurance amongst its members/clients. For (MFIs) micro-finance institutions, integrating insurance with their credit and savings activity makes logical sense as it helps them to reap economies of scale in financial management, provides captive markets, and enables them to use their existing network and distribution channels to sell insurance.Besides,linking micro-insurance with micro-credit makes it cheaper for the borrower to have both these financial services.

Insurance helps in reducing interest rate charged on credit. With insurance interest rate together with premium may be lower than interest rate charged in the absence of insurance. The higher the loan recovery, the lower is the rate charged by the lender. Thus, insurance by reducing the risk of loan default due to the contingency against which insurance is bought reduces interest rate charged by the lender. It therefore makes better sense for micro-credit organizations to introduce micro-insurance.

Micro –insurance is one of the tools in a wider context called "micro-finance "which means the furnishing of loans, savings, and other specialized financial services for people belonging to poor communities or for micro-entrepreneurs.

As we mentioned earlier micro-finance encompasses;

- Micro credit-(flexible loans)
- Micro savings- (short, medium and long term);and

- Micro insurance-(life, health and property)

MICRO-INSURANCE AS A TOOL FOR POVERTY ALLEVIATION

Government efforts through the provisions of micro-finance opportunities to small and medium businesses is a step in the right direction in addressing poverty amongst its growing population though not sufficient, therefore, adequate insurance is needed to protect these credit lines offered by micro-finance institutions and banks otherwise beneficiaries of such facilities could as well go back to poverty. Small businesses are also exposed to such risks as health, fire, burglary, death and family responsibilities which are capable of eroding businesses or assets acquired over time.

Every society has risks that should be avoided and low income people are always vulnerable to them. Low income people are more exposed to such risks than the rest of the population and most times cannot deal very well with the crises.

These categories of citizens therefore need insurance more than anyone else because they lack fallback positions whenever there is a loss. Small businesses take loans from micro-finance institutions and whenever there is sickness or accident and they are hospitalized the next thing will be to use such loans collected to pay for hospital bills and return to poverty once again.

Poverty and vulnerability reinforce one another forming an ever-growing downward spiral, not only the exposure to risks results in substantial financial losses but vulnerable families suffer the continued uncertainties about when and how loss may occur. Due to this perpetual concern, poor people are less likely to take advantage of income generation opportunities which may reduce poverty. The majority try to manage their risks and deal with the consequences. Saving money, Esusu, working extra time on other activities and asking for loans from friends or relations constitute some of the strategies used to avoid financial loss which is inefficient and exacerbates poverty.

Such informal protection methods do not resist unforeseen serial cases before they are able to rise again from an adverse situation, a new unforeseen event may occur with more power throwing them back to stage one again.

Micro-insurance therefore provides cushion against such vulnerability by offering micro-health, life, and property insurances.

It is a commonly accepted key strategy therefore to enhance sustainable economic development and alleviate poverty by making financial systems more inclusive by improving access to savings, credit and insurance.

It is note worthy to observe that some insurers like AIG life in Uganda, Coco life in the Philippines or the Brazilian insurance industry have all entered this new venture with promising results. However, some commercial insures and Policy makers still tend to believe that providing insurance cover to the poor is the responsibilities of the state and in practical terms it is impossible to insure poor people on a cost covering basis. They suspect that poor households either cannot pay for their insurances or the informality of their living situation makes them unattractive as clients because they do not have formal employment, have ID cards and are illiterate.

It should however be mentioned that many state run schemes of social protection in developing countries have failed as they are poorly run, for those targeted do not benefit while those who can afford them are the ones who access these benefits. Also, public social security schemes where available are delivered through formal sector employer which does not reach the unorganized workers both employed and self-employed in the informal economy.

On the other hand however, insurers are beginning to notice the vast markets of low-income households but numerous obstacles need to be overcome if micro-insurance is to be offered efficiently and effectively in terms of distribution system, products development and capacities.

OVERVIEW OF MICRO-INSURANCE ACTIVITIES (GLOBAL PERSPECTIVE)

It is important that we consider the Global perspective on micro-insurance to enable us have a clearer picture of its effectiveness which will further buttress our assertions on its importance in economic development in developing countries such as; India,Brazil,Philippines,South Africa, Bangladesh and to some extent Nigeria.

Today it is estimated that only 80 million out of the estimated world's population of 2.5 billion poor are now covered by some form of micro- insurance, while most remain without access to this critical financial service.

In China and India where organizations are estimated to serve nearly 30 million insurance clients each, the percentage of poor lives insured hovers below 3%.In Africa it is much lower, just 0.3% of the Continents poor are insured.

According to recent data in 23 of the poorest 100 Countries of the world there is currently no identified micro-insurance activity representing an unserved population of 370 million.

INDIA:

In India most micro-insurance schemes (66%) are linked with micro-finance services provided by specialized institutions (MFIs).life and health are the two most popular risks for which insurance is demanded.

A few micro-insurance schemes were initiated either by non-Government organizations (NGOs) due to the need in these communities in which these organizations were involved or by trust hospitals.

The scheme has now gathered momentum partly due to the development of micro-finance activities and due to regulation that makes it mandatory for all formal Insurance companies to extend their activities to rural and well identified social sectors in the country, thus, increasingly micro-finance institutions (MFIs) and NGOs are negotiating with for-profit Insurance Companies for the purchase of customized group or standardized individual insurance schemes for the low income people.

Today, about 5 to 10 million individuals are involved with a market estimation of Rs250 billion this year (2008).

Tata AIG life Insurance Company of India initiated its micro-insurance 11 years ago with its efforts in Uganda; and is committed to being the world's leader in providing insurance to the rural poor. It has embarked on a strategy to deliver products and services in over 50 countries .The Company already has presence with its micro-insurance in Uganda, South Africa, Brazil Honduras,Ecuador,and Guatemala.

Micro-insurance contributes 23% of its monthly life sales figures.

THE PHILIPPINES:

In the Philippines existing social insurance schemes failed to cover the informal sector which accounts for 50% to 75% of the Philippines economy labour force and overseas work. Micro and small enterprises constituting 90%of all business establishments and are the biggest employment generators.

Micro-Insurance is provided by the following:

- Cooperative and Mutual insurances
- Commercial Insurers
- Public schemes

Micro-insurance is noted in the medium-term Philippine development plan 2004-2010 which considers poverty alleviation a principal development objective with the stated goal of giving the disadvantaged sector preferential access to social protection, safety nets, and access to financial services such as micro-insurance.

The insurance law in the Philippines provides a specific legal frame work for micro-insurance in the form of Mutual Benefit Associations and Insurance Companies.

BRAZIL

Half the population of Brazil 180 million are rated poor with the economy dominated 60% by small scale businesses. Micro-insurance has not been too successful in growing although the future is bright if the challenges currently hindering its growth are addressed, amongst which are; lack of regulatory frame work, lack of preventive culture and risk mitigation, challenges of insurance business in general, and premium collecting models to mention a few.

Some of the micro-insurance products prevalent in Brazil are funeral expenses aid, life and personal accident, credit, home (fire, lightening and explosion) and familiar agricultural money lender.

Micro-Insurance only became fashionable in Brazil in 2007.

BANGLADESH

The pioneer of modern micro finance with over 37 years rendered by the Grameen Bank the foremost MFI established by Professor Mohammed Yunus.

NIGERIA

Nigeria has a population of 140 million with the majority who live below poverty line of less than $1 or N120 a day. Such people can hardly afford banking services and as such remain largely under banked or unbanked and uninsured.

About 80 million entrepreneurs do not have access to financial services. This segment also employs over 70% of the Nation's work force, yet micro-finance is still at its infancy. The Country has however taken steps to develop the sub-sector as a tool for economic empowerment and poverty alleviation for its over 70 million poor population.

It is therefore expected that the insurance industry would leverage and key into this sector by providing the much needed micro-insurance. Nigeria and the West African sub region is still a non-starter in the area of micro-insurance vis-à-vis the percentage of its poor population, but the potentials are there for the tapping.

THE WAY FORWARD - (CHALLENGES)

1) LEGISLATION

In Nigeria the current regulatory fame work does not hinder micro-insurance rather the Insurance Act 2003 has made adequate provisions under section 2 (1) (2) (3) (5) and (6) which states:

2(1) There shall be for the purpose of the Act two main classes of insurances that is;

a. life Insurance business; and
b. general Insurance business

(2) In the case of life insurance, their shall be 3 categories-

a. individual life insurance business
b. group life insurance and pensions business; and
c. health insurance business

(3)In the case of general insurance, there shall be 8 categories-

a. fire insurance business
b. general accident insurance business
c. motor vehicle insurance business
d. marine and aviation insurance business
e. oil and gas insurance business
f. engineering insurance business
g. bonds, credit guarantee and surety ship insurance business; and
h. miscellaneous insurance business

(5)Subject to this Act an insurer may be authorized to transact any new category of miscellaneous insurance business if he shows evidence of adequate reinsurance arrangement in respect of that category of insurance business and requisite capital where necessary and other conditions as may be required from time to time.

(6)If the National Insurance Commission (in this Act referred to as the Commission) is satisfied that an insurer-

a. has conducted his business in accordance with sound insurance principles; and
b. has complied with the provisions of this Act, it shall in writing permit the insurer to conduct any class of insurance business in addition to those covered by his certificate of registration.

Other developing Countries have had to enact legislation in order to enable them introduce micro-insurance, here in Nigeria, the legislation has already paved the way, so what are we waiting for?

2) *DRIVERS/AGENCY*

Insurance Institutions should strive to identify beneficial linkages with micro-finance institutions and actively pursue financial sustainability through the provision of such insurance products and maintain good client relationships. It is imperative therefore for the insurance Companies to develop efficient and effective nodal agencies, for one of the greatest challenges of micro-insurance is the actual delivery to the target clients. Insurance Companies also need to develop relationships with various civil society associations who undertake the role of mediating agencies that represents and acts on behalf of the target community. These agencies may assist in the dissemination of information on insurance thus generating demand for insurance.

The insurance industry may be challenged to devolve models for the delivery of micro-insurance products. Two of such models are suggested here:

(i) The partnership model where a partnership is formed between a micro-finance institution and micro-insurance provider. Here the MFIs would gather information on their clients to facilitate the concept of suitable insurances, would collect premiums and transmitting the claims, whilst the insurance company absorbs the risk and takes care of all technical issues including rating, training, and product design. Several MFIs in the Philippines partnered with Cocolife insurance company to insure more than 300,000 poor households.

(ii) Single agency model where the insurance company engages the services of agents train them and assign them to the rural areas preferably to their localities since they would be conversant with the cultures and traditions of such areas. They may be retained as:-

a. Agents on the payroll of the insurance company, or
b. Agents on a standalone basis.

3) PRODUCT DEVELOPMENT

The design of insurance products suitable for the poor is essential in tackling financial exclusion.

Micro-Insurance as a tool for poverty alleviation requires products that meet the needs of the micro-customer in every material, culture and religious respect.

Products developed should target such areas as health, education, loan repayment, life, property, crop, and livestock to name a few.

(MIA) is a Micro-Insurance Agency in the Philippines serving extremely poor households with affordable and suitable range of insurance products. Since 2002 it has developed a range of products spanning life, property, livestock, crop derivatives, disability, unemployment and health insurance products. As at the end of 2006 MIA has served more than 3 million people in ten different countries. This underscores the importance of product development.

In this regards, the National Insurance Commission is ready to approve any new micro-insurance product developed within one week if it meets the requirements set by the Commission.

4) CONSUMER EDUCATION

Insurance as a product is a grudge purchase and therefore does not appeal to the consumer and in addition the public perception has not been too encouraging especially with a very suspicious insuring (Nigerian) public.

The insurance industry must therefore engage in collaborative awareness campaign in order to educate and convince the target clients to take out insurance. The industry must be prepared to spend a lot of funds on social corporate responsibilities of educating the rural population on the role and importance of insurance. The Industry must therefore embark on mass awareness campaign on micro-insurance and the support of the Commission in this direction is assured.

CONCLUSION

Micro-insurance is still an area not much explored in this sub-region yet is suited for underdeveloped and developing Countries where social disproportion is high.

There are two ways to see micro-insurance –

- As away to soften the social disproportion so that society becomes more egalitarian; and
- As a new threshold of the insurance business only waiting to be crossed

While micro-finance in general worries about relieving people from poverty, micro-insurance focuses on helping people from falling into poverty traps on their way to the middle class.

In order to avoid people from becoming poor due to illness, natural disaster, lack of savings, or loss of assets or livestock, developing Countries must invest in micro-insurance.

If micro-insurance has served in reducing poverty and enhancing the economic wellbeing of the Countries mentioned earlier why not Nigeria and the West African sub-region? Why should we lag behind? It is therefore imperative that we embrace micro-insurance. The industry must take advantage of the emergence of micro-finance to provide micro-insurance which has been the main drivers of economic growth of the Asian economies such as India, Malaysia, China and Indonesia.

I would recommend that Insurance companies gearing towards writing micro-insurance need to send their staff to Countries such as India, Indonesia, Brazil, Philippines and Bangladesh in order to understudy micro-insurance in those countries. Micro-insurance is not an area insurers should rush into without adequate preparation in terms of staff training, product development and feasibility studies of its proposed target clients/areas.

We cannot hope to attain the goals and aspirations of FSS 2020 where 70% of our population lives below poverty line.

This is therefore a task which we must address seriously if we must fight poverty in this sub-region as poverty will not be addressed by giving loans alone but by going further to ensure that such loans are protected against health and environmental hazards.

I do sincerely hope this paper would have given us food for thought and set the tone for a robust discussion on the subject matter.

I thank you for your time and attention.

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