Can We Design Better Microinsurance?

by

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Microinsurance
Key Challenges

Supply Challenges
- “One-size” products not sufficiently customized to local risk exposure
- Extremely costly and complex program
- Too linked to loans

Demand Challenges
- “the government should solve this problem”
- “I am too poor to pay”
- “What is in it for me”

Intermediation Challenges
- Formal vs informal sector
- Complicated policies and processes
- Regulatory constraints

Last mile untouched
Habitual Partner-Agent Model vs MIA’s model

Habitual Partner-Agent Model

Insurance Company (Partner)

Product design

Maintenance of long term sustainability

Agent NGO

Product marketing

Product servicing

Client

MIA’s model

Insurance Company (Reinsurer)

Maintenance of long term sustainability

Community

Empowering Communities

Consensus on design

Risk transfer to insurance

Community members/ Self-help Group

Insurance activists enroll

Local product serving

Technical assistance

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MIA’s New Agri Index: CCC Index

Risks Covered

- Water Stress
- Water Logging
- Excess Heat

Parameters

Non-Climatic
(Topography, Soil type, Groundwater depth)

Climatic
(Daily Rainfall, Temperature, Humidity etc.)

Index

“Climate Cost of Cultivation”: an innovative method to quantify the added cost to farmers of climate change
Better performance of CCC over typical index insurance

Correlation between losses and payout*

- CCC premium: 75% cheaper than habitual index insurance at community level
Proposed Model for Agriculture Insurance

Idiosyncratic

Risk

Covariate

Water Stress

Water Logging

Excessive Heat

Hail Strom

Wild Animal Grazing

Covered by Index-based Insurance

Covered by Indemnity based Insurance
MIA’s Efforts to Address Challenges: Community Run Schemes

MIA’s Microinsurance Model

1. Selecting groups with suitable social capital
2. Affordability
3. Context-relevance
4. Responsive to perceived priorities
5. Trust-worthy process
6. Proximate and simple

MIA’s Success Stories with CBHI

- High renewal rates: 40-80%
- Cumulative enrollment: 94,379
- Social empowerment: 57% women & 89% SC/ST enrolled + local governance
- Prompt claim settlement: < 1 month
- Claim ratio: 60-85%
- Financial sustainability: All CBHI schemes solvent into year 4 of operations
- Zero premium subsidy
MIA’s: Glimpse From the Fields

- Insurance Literacy & Awareness
- Participatory Risk Assessment
- Community Voices
- Community Designed Packages
- Prompt Payouts
MIA’s: Glimpse
From the Fields
Participatory Risk Assessment
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Way forward

• Government should invest in catalyzing demand for voluntary uptake (not linked to debt)
• Pilot CCC for 2-3 major cash-crops
• Community governance of the scheme (10% of risk mutualized, community policy)
• Remove paperwork hurdles (proof of landholding/leasing etc.)
• Link insurance with value-added services
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