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Innovations in insurance: protecting poor households in developing countries

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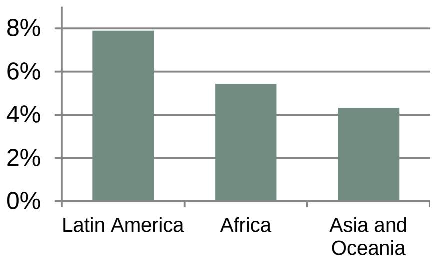
Many people in developing countries are not able to adequately protect themselves against substantial risks such as crop failures, illness or natural disasters. The least protected are the poor and vulnerable.

The main challenges to provide insurance solutions to households in developing countries are twofold: (1) the lack of income and liquidity to pay for insurance and (2) the poor infrastructure and difficult geographic conditions to reach out to the households.

Graph 1: Proportion of households with insurance



Source: Micro Insurance Network

Currently, there are a number of promising innovations in insurance addressing these challenges which might pave the way to better protect the poor and vulnerable.

Protection via SMS

The increasing use of mobile phones enables households in developing countries to purchase insurance digitally. This approach is particularly promising when digital money transfer systems (e.g. *MPesa*) are already in place. *Acre Africa*, for example, offers seed insurance against drought-related crop failure. This insurance can be bought quickly by text message. A similar route has been taken by *Bima* und *MicroEnsure*, which charge the insurance premiums directly from their customers' mobile phone credit.

Insurance with advice via digital media

Another innovative concept is insurance with integrated advisory services. Insurance services are combined with targeted and needs-based business advice which is supposed to boost the productivity of households and prevent damages and claims. Moreover, the provision of insurance and advice per mobile phone saves time and money for customer outreach, in particular to rural households. For instance, farmers insured by *Weather Insurance* are advised via WhatsApp on how to use fertilizers and pesticides appropriately – a photo of the plant is sufficient here.

Peer-to-peer models

The idea of group insurance has been in place in many developing countries for a long time, albeit informally. One example of this is *iddirs* in Ethiopia, which bear risk as a group and pay the funeral expenses when a member dies. This concept has now been formalised in peer-to-peer models. First, groups of policyholders are created, who pay into a common fund and assume liability for smaller claims. If the budget is not fully used, the remainder is paid out on a pro rata basis. In addition, the group purchases an insurance policy for larger claims. In this model, moral hazard can be reduced due to the deductible. Furthermore, claims investigations are only necessary when larger sums are claimed which enables affordable premium rates. An example of a peer-to-peer model in Germany is *friendsurance*, which offers a variety of insurance products to groups at discount due to a joint deductible.

Insurance-for-work

The poorest of the poor in developing countries cannot afford to pay insurance premiums, e.g. for health insurance. This is where approaches such as *Garbage Clinical Insurance* can help, in which insurance premiums are financed through work. In the case of *Garbage Clinical Insurance*, this is done through the sale of garbage in the form of recyclable plastic bottles. Instead of paying the insurance premium, people just hand in two kg of plastic waste. In return, they receive health insurance cover for a month. This enables even households who could not afford insurance otherwise, to be financially protected against health risks.

Conclusion

The most recent insurance approaches take advantage of modern communication technologies or make use of group dynamics. Although these approaches are still at an early stage, they nonetheless demonstrate how poor and remote households in developing countries can be reached in the future. Global initiatives to promote insurance solutions in developing countries, such as the current G7 *InsuResilience* initiative, can utilise such innovative approaches in their endeavours to reach out to the poor and vulnerable.■