



*Welcome to the Public Awareness column prepared by the Reserve Bank of Fiji. This week's article introduces some discussions on micro-insurance and the need to develop more appropriate financial products for the poor and a more inclusive financial system.*

### **Micro-insurance: An option for the poor?**

Risk is a fact of life that we all have to live with. But how each one of us manages these risks can be quite different. A common form of risk protection is insurance. Insurance provides individuals or businesses with a buffer against the adverse outcome of a perceived risk(s). Insurance, however, is not always accessible or affordable to everyone. In many countries it is generally the salaried income earners, middle class and the wealthy who are insured. The poor, rural dwellers, small businesses and irregular wage earners often do not get covered by insurance because, (1) they have other pressing “bread and butter” issues to worry about, (2) they are not aware of the availability of these products and (3) they cannot find affordable insurance products to suit their needs.

The term *micro-insurance* is used to refer to a low value insurance product designed for low income earners. A more formal definition of micro-insurance is “the protection of low income people against specific perils in exchange for regular monetary payments (premiums) proportionate to the likelihood and cost of the risk involved”. Usually those from poor households have very limited means or a scarce resource base to support them. This makes them more vulnerable to risks. Consequently when an adverse or unplanned event occurs, they are likely to face great financial burden, compounding their problems. Hence the availability of micro-insurance would in some ways provide the poor with some protection, peace of mind and dignity. In doing so, micro-insurance gives them an opportunity to improve their lives.

## **How then does insurance actually work?**

Insurance provides for the compensation or payment of all or part of a financial loss caused by an unforeseen risk or event. This payment is usually derived through a pooling mechanism. All those who are insured against a particular risk will contribute by paying small regular installments or premiums into a large pool from which compensation payments are derived in the event of a loss. This risk pooling mechanism also allows the compensation pay-out to be greater than the actual premiums that were paid by the individual.

Micro-insurance is different from other insurance in that it is designed specifically for low income groups and therefore the costs of the insurance are lower and the insured is a large group or communities rather than individuals.

Micro-insurance is a relatively new and growing business around the world. Its growth has largely been fueled by the microfinance industry, and has seen rapid growth amongst the poor in some of the more densely populated countries like India, Haiti, and the Philippines.

The successful uptake and distribution of micro-insurance in these countries provides some lessons for us here in Fiji. Interestingly, financial literacy plays a key role:

- firstly, in providing awareness of micro-insurance products and schemes;
- and secondly, ensuring that those who are insured fully understand how it works and how and when to make a claim on an insurance policy.

## **Micro-insurance in Fiji**

The insurance industry in Fiji is well established. There are currently 10 registered companies, two of which are life insurance companies, eight general insurance companies and a number of insurance brokers and insurance agents. The industry is regulated by the Reserve Bank of Fiji under the Insurance Act 1998. The RBF has a well established group responsible for the licensing and supervision of the insurance sector in Fiji. The RBF has also established a new group that, among other things, has been tasked to look at ways of extending financial products and services to the wider Fijian community, particularly the poor, rural and island communities. The Fijian Government through the Financial Intelligence Unit has also relaxed customer identification requirements to ensure that these communities are subjected to simplified rules that

allow easier access to financial services. A recent study done by the Asian Development Bank highlighted opportunities to further develop the insurance industry in Fiji, in particular the micro-insurance sector.

There are currently two existing products that are targeted for low income and informal workers. These are:

- the Fiji Care basic funeral product; and
- a pilot insurance product that was provided by New India Assurance through the Bank of Baroda's microfinance insurance loans scheme.

### **What can be done here to replicate or adapt successful micro-insurance models?**

Although Fiji may not have a large and dense population as countries in Asia and South America, we certainly can look into ways of applying the law of large numbers, as well as develop innovative ways of packaging and delivery, that have been used in these countries.

In the design of micro-insurance products it is important that they should suit the needs of the poor, and that are simple to understand and fairly easy to distribute.

In this regard, the insurance companies have been working with the donor community and the Reserve Bank towards the introduction and design of more appropriate insurance products that are suited to the local environment. These include:

- Endowment cover (savings product)
- Simple term life cover
- Health cover (to complement the free health care system)
- Asset cover
- Personal accident/disability cover
- Livestock insurance (e.g. for dairy farmers to increase the output of the industry) <sup>1</sup>

The Pacific Financial Inclusion Program has been working with a number of religious and charitable organizations to assess and conduct pilot programs on potential micro-insurance

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<sup>1</sup> Asian Development Bank, 2010 [Microfinance in Fiji Challenges and Opportunities](#)

products. This project will provide an opportunity for the insurance companies to better understand the peculiarities and challenges of the local market.

### **The Way Forward**

Micro-insurance covers insurance products specifically designed to meet the challenges and needs of the poor. Although the risks faced by the poor are pretty much the same as most people, the reality is that the poor are more vulnerable and susceptible to risks. Unforeseen disasters and accidents tend to have a huge financial impact on them. Micro-insurance provides the poor with the means of withstanding these shocks and being able to build up their resources and improve their standards of living.

In Fiji, the micro-insurance industry is still in the early stages of development with a small product range. However there are many opportunities for us here in Fiji to learn from other countries such as India, one of the global leaders in the microfinance and micro-insurance industries.

In summary, micro-insurance is a tool for the country's low-income people to protect themselves from adversities. It will moderate financial risks and provide optimism to policy holders, helping them cope with financial emergencies. Micro-insurance has been an integral output of microfinance and will assist the poor from being further impoverished as a result of adverse events.

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