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PRESS RELEASE

Microinsurance – An Innovative Tool for Risk and Disaster Management

The latest publication of the Global Risk Forum GRF Davos “Microinsurance – An Innovative Tool for Risk and Disaster Mangement” is a collection of contributions from presentations given at the International Disaster and Risk Conference IDRC Davos 2008. The contributions point out the importance of Microinsurance in reducing the risk of impoverishment, and in improving risk prevention and disaster management.

Microfinance has evolved as an economic development approach intended to benefit low-income women and men. The term ‘microfinance’ refers to the extension of financial services to poor people who are not considered qualified enough to have access to traditional bank and insurance services. Financial services generally include (micro) credit, (micro) savings and (micro) insurance. In addition to financial intermediation, many microfinance institutions provide social intermediation services such as group formation, development or self-confidence, and training in financial literacy and management capabilities among members of a group.

More stability with Microfinance

Particularly worrisome are the punishing consequences of inadequate financial support for the health, well-being and the earning capacity of the poor. In the uncertain world of rain-fed agriculture, food availability and earnings vary widely from one season to the next, and the spectre of harvest failure is ever present. In cities, market upheavals can produce unexpected swings in unemployment, particularly in the informal economy in which the poorest tend to work. Without access to formal institutions offering savings, credit and insurance services, the poor may have difficulty in maintaining essential food consumption during lean seasons, poor harvests or periods of unemployment. This can cause temporary but acute nutritional deficiencies that affect the long-term physical and mental health and growth of people.

Financial intermediation

The importance of financial intermediation in reducing the risk of impoverishment has long been recognised. Yet, substantial challenges remain in providing affordable, useful and sustainable financial services to the poor. There remain instances in many developing countries in which financial constraints – rather than lack of skills, market opportunities, etc - prevent poor families from making the key investments necessary to escape poverty.

Microinsurance enlarge people’s freedom

Since we conceive of poverty in terms of capability deprivation, income inadequacy and lack of services, we have to look for ways for fighting it that are able both to answer the economic need of individuals and to enlarge peoples’ substantive freedom. Microfinance is considered one of the instruments that can sustainably achieve these purposes. Firstly, it is a recent instrument of development and poverty alleviation that is completely different from the policies of assistance and beneficence. Secondly, it helps poor people by stimulating their will; by motivating them to improve their lives and promoting the spirit of enterprise. Ultimately, it is an anti-paternalistic way of helping the poor through their empowerment, responsabilisation, achievement and enlargement of poor peoples’ freedom.

Insurance for the grassroots level of society

Microinsurance refers to the provision of insurance products specifically targeted to individuals and households at the grassroots level of society. The term ‘micro’ refers to the low-income clientele served and to the low premium, limited coverage and low claim incidence, while the term ‘insurance’ acknowledges that the risk insured is managed based on insurance principles and founded by premiums. Mainly thanks to the successful achievements and broadening outreach of Microcredit activities across the world, recent interest on Microinsurance has emerged from both the private and the public sector. Private insurance companies consider the potential gains in selling insurance services to the poor. A large demand from low-income households and individuals who cannot afford traditional insurance services exists, which is not serviced and has low competition. Expected economic growth will also generate the need for diversified insurance products. Portfolio diversification, brand promotion as well as issues of Corporate Social Responsibility are also streamlining business interest of the private sector towards Microinsurance.

The linkage between Microinsurance and risk reduction

This book as a collection of contributions from speeches given at the “International Disaster and Risk Conference IDRC 2008” held in Davos, Switzerland (25-29 August, 2008) aims to underline the importance of strong links between the risk management community and the public and private sectors. The scope of this book is both to investigate the linkage between disaster risk reduction and Microinsurance and to address possible combinations of loans, savings and insurance schemes for low-income people to provide them with appropriate solutions for at least partial risk reduction, and for faster recovery after a disaster.

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