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Micro-Insurance in Egypt

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Abstract

Microinsurance is an insurance service presented to low income people aiming to protect them from any risk they can face.

Micro-insurance Definition:

Simply, micro-insurance is an insurance service offered by insurance companies to low income and poor people, in order to protect them from any risk they can face, and in return, people pay suitable regular premiums.

It is well known about insurance its interaction with a specific class of people, due to this class conviction and awareness.

The same can be said about micro-insurance, which can be considered as an insurance type to be applied in different branches (life and non-life).

Micro-insurance is not newly arising in Egypt or even internationally, but it existed in Egypt and disappeared step by step due to non–turnout. And currently, it is not enough expanded as it must be, though the serious steps taken and efforts to achieve this.

The micro-insurance idea remains concerned with insuring low income people and owners of small projects in developing countries, who mostly are farmers and peasants who need to insure their crops and their small areas of agricultural lands, or owners of small projects like housewives, who are working from home (for example: making handmade art crafts).

Generally, this class of people needs to insure themselves against death, illness, disability, property loss, natural hazards, and work loss.

Mentioning micro-insurance start, it is worth mentioning that the beginning was in the United Kingdom when they wanted to meet poor people needs in rural areas by selling them life insurance policies for a humble premium that the broker used to receive while visiting the insureds.

In Egypt, this type of insurance was known during the sixties and the beginning of the seventies, when Dr. Fathy Ibrahim studied the "public insurance policy" presented by the National Insurance Company to be sold in the Egyptian Market where the brokers targeted the farmers for a 25 piaster' premium to be deducted from the farmers' salaries or the agricultural society pay it instead.

Micro-insurance features:

- Micro-insurance and its policies are unique in targeting to cover a specific class of illiterate or uneducated persons in the society.
- It covers the same areas as commercial insurance (death, illness, disability, etc...) but the difference remains in the fact that the commercial insurance policy includes conditions that suit every case separately, and the company can accept or refuse to issue the policy.
- One of the most important micro-insurance policies' features is that its language must be easy to understand, to help the policyholders know their rights and duties.
- Also, the time factor in dealing with indemnities, taking into consideration the policyholders' circumstances.

If the national market is open to this type of insurance, it will not only help the existing companies to sell it, but also it will give the chance to new companies specialized in micro-insurance to open, then the market will include companies as follows:

- Commercial insurance companies (life and non-life),
- Takaful insurance companies (life and non-life), and
- Micro-insurance companies.

This step will strengthen the cooperation between insurance companies and financing companies and institutions. In addition to promoting the existing relation between insurance companies and banks embodied through banc-assurance as the banks represent one of the financing entities in general.

Points to take into consideration when talking about micro-insurance:

- Conviction of the targeted class of people with the insurance's importance in general.
- The importance of creating new ways to reach the targeted clients.
- The importance of ensuring a broker's lower commission proportioned to the client's income. And ensuring also that premium's calculation is proportioned to the project type together with the client's income.
- The importance of studying the targeted areas, know the market exact needs, persons' cultural and educational backgrounds, the demands and how to offer it, the required types of policies (health, death, disability, illness, education, natural hazards, property loss, loans, etc...).
- The relation between microfinance and micro-insurance, as microfinance institutions are financing and offering loans to small projects owners in poor and developing countries.

Also, the most important challenges the micro-insurance underwriters face are as follows:

- The minimum capital the Law requires from the companies offering this type of insurance to be established must be less than the one required from other companies.

- The care given by the commercial insurance companies working in developing countries to the micro-insurance is not enough due to being sure of the cultural background of people there, that the offered service products are not attractive enough.
- The importance of decreasing the premiums to be reachable to the policyholders and the broker's commissions to be fair enough to the broker and the company.
- Increasing people's awareness of insurance in general and micro-insurance in specific.
- The instability of the low income people caused by the fluctuations in income sources, which represents an obstacle for the insurance underwriters, due to the difficulty in providing the required periodical premiums.

The current unstable political situation in Egypt change the opinion about the insurance as a financial service linked to people with high incomes only, though the unstopped effort the companies make to spread different kind of policies aiming to attract different segments of the society, but still most companies compete and still the main feature of competition is attracting the client by price competition.

Insurance should be redirected intensively to low-income people, setting a full system covering both life and nonlife insurance branches with a cheap premium, by relying on thematic studies of the market and the social and economic situation for the low income people and their needs as a cornerstone for the success of this experiment.

We believe it is possible to expand the concept of microinsurance to cover small and medium projects to support their competitiveness. Especially that this kind of projects need support from all service institutions within the market as well as that these projects will someday become large industrial institutions and future clients.

We reaffirm the need to put strict microinsurance rules to ensure the success of the experiment away from some insurance companies' malpractice under the pretext of attracting customers.

Microinsurance as well as bancassurance is the horse betting for the insurance sector to play its assigned role within the economic development.