DOI 10.20544/HORIZONS.A.20.1.17.P35
UDC 368.182.2.025.6(497.7)

MICROINSURANCE - BETWEEN THE SOCIAL AND THE ECONOMIC DIMENSION OF RISK MANAGEMENT[67]

Vera Karadjova PhD, Snezana Dicevska, PhD
University “St. Kliment Ohridski” – Bitola, Faculty of tourism and hospitality, Ohrid, Kej Makedonija 95
verakaradzo@yahoo.com
sdicevska@yahoo.com

ABSTRACT

Risks are inevitable, objective category faced by all people and all business entities and they are widespread in all areas of human existence, regardless of the level of the human community development. Therefore, various strategies for risk management are developed, among which the insurance have one of the central positions. But, the demand for insurance services is largely determined by the legal framework regulating the insurance market (compulsory and optional insurance), the level of awareness for the need of buying insurance services (because it is usually about types of risks that the frequency of occurrence is not extremely expressed), and the level of the living standard, or the availability of insurance services for socially vulnerable categories of the population in a national economy. Uninsured risks, regardless of the type of risk in question, especially badly affect poorer categories of society which cannot cope with the catastrophic losses from negative shocks.

The paper refers to the elaboration of the need for developing microinsurance services by comparative analysis of the coverage of these services in the countries in the world, analysis of the socially vulnerable strata of the population in Macedonia that could potentially be involved in the demand of these services and the microinsurance models that could be applied in countries that have not still developed this form of insurance.

[67] Original scientific article

Key words: risk, insurance, microinsurance, living standard, socially vulnerable categories

INTRODUCTION

The term "microinsurance" typically refers to insurance services offered primarily to clients with low income and limited access to mainstream insurance services, regardless of whether we are talking about developed, undeveloped or developing countries. In fact, the microinsurance from one hand have social dimension that refers to providing protection of low-income population from certain specific types of risks, but on the other hand realizes significant economic effects on the development and expansion of the insurance services market by inclusion of economically disadvantaged strata of the population on the insurance products demand side. The principal distinction from traditional insurance is in targeting of low income people, which leads to distinct characteristics and objectives, including addressing the particular risks of low income people (health insurance, insurance against unemployment, insurance against catastrophic risks, etc.).

The concept of microinsurance is based on the idea of merging the necessary and useful, or merging the business and the social responsibility. In other words, it is about linking the offer of insurance products and socially vulnerable categories of the population, where insurance products are offered at extremely low prices. Thus achieves significant expansion of the sales on the market of insurance products, but also ensure an opportunity for risk management of a large part of the population which cannot afford using of insurance in order to provide health care, quality education or compensation for damages caused by catastrophic risks.

The idea of microinsurance is from a recent date, thus it is develop about the beginning of this millennium. Worldwide, the microinsurance is promoted as a platform for affirmation of corporate social responsibility by the leading insurance companies with the intention for access to the most countries in the world with low living standards, especially in countries with significant demographic potential. In such conditions of observing microinsurance between the economic and social dimension of its existence, the question that arises is when, to what extent and under what conditions it can be accessible to socially vulnerable categories of the population in countries that have not large demographic potential, but have a expressive percentage of the population belonging to the category of "poor" households. Exposure to risks of any kind is imminent for people and businesses regardless of their level of development, and regardless of the level of living standard. Moreover, socially vulnerable categories of the population are exposed to risks which burden could hardly bear. Considering the nature and the concept of insurance as a strategy to manage risks by applying the principles of reciprocity and solidarity, quite naturally these concepts are coupled with the idea of microinsurance, which simply observed as the idea is not as new, as new is the application of this type of insurance. Such exclusion of the poor from the insurance institution often stems from the perception of people with a low standard of living that the payment of the insurance policy is an unnecessary cost that would additionally burden their modest budget for a service which they probably "will not need". Contrary to that view, usually those with modest incomes are most in need of insurance coverage in situations of arising of any kind of risk for which they have not financial capacity to withstanding them independently.

The question that arises in these circumstances is: How poor do people have to be for their insurance protection to be considered micro? The answer varies by country, but generally microinsurance is for persons ignored by mainstream commercial and social insurance schemes, persons who have not had access to appropriate products. Of particular interest is the provision of cover to persons working in the informal economy who do not have access to commercial insurance nor social protection benefits provided by employers directly, or by the government through employers.[68] Taking into consideration dual approach to microinsurance of Craig, who is considered as the most important researcher in this area, it can be concluded that microinsurance can be analyzed from two aspects, such as: (a) a product that on the market is sold by the existing or new insurance companies; and (b) a product that provides social protection of low-income persons in the absence of adequate government program; i.e. as: (a) financial services for risk management for the people with low income; (b) a strategic development measure of the state (agriculture and rural development, social protection, climate change mitigation, financing of low-income persons, etc.). In both cases, it is about the same product, having in mind that in the first case the microinsurance have an economic dimension, and in the second case have a social dimension. Thereby, both aspects are equally important and should be complementary. One of the trends in modern times is a public-private partnership and the mutual approach of the state and market in providing protection for the socially vulnerable categories of the population.

[68] Churchill Craig, Protecting the poor: A microinsurance compendium, International Labor Office, Geneva, 2006, pp. 13

MICROINSURANCE – THE CONCEPT AND DEFINITION

Although at first glance it is quite clear what is and who is the subject of microinsurance, in the theory and practice of insurance there is no single, universal definition of the term. Determination of microinsurance is accomplished referring to the key aspects, factors and stakeholders that this type of insurance concerns. Microinsurance is a highly diversified sector, in terms of:[69]

- ***Stakeholders***: Microinsurance is developed and offered by commercial insurers, mutual funds, microfinance institutions, NGOs, governments or semi-public bodies. Microinsurance ventures are often joint efforts among several of these stakeholders, who can play roles ranging from market research and product design to selling, delivering, and servicing claims.
- ***Products***: Microinsurance products can cover any insurable risk, including death, illness, accident, property damage, unemployment, crop failure, or loss of livestock.
- ***Portfolio size***: Microinsurance can operate at any scale; a microinsurer may cover dozens of policyholders, or millions.

This wide diversification of the microinsurance further complicates its conceptual determination. Analyzing the authors who treat the issue of microinsurance, it can be concluded that the definition of microinsurance is continuously upgraded, supplemented and expanded, gaining in width and quality. As the microinsurance sector evolve, thus the definition of microinsurance is also evolving, taking into consideration the findings of researchers working on these issues, regulatory bodies and international institutions which regulate the microinsurance sector.

The first definition appears to have been published in 1999 by David Dror as part of "Microinsurance: Extending Health Insurance to the Excluded" where he defined "micro" as "the level of society where the interaction is located, i.e. smaller than national schemes, and 'insurance' refers to the economic instrument". In 2002 he continued to focus his definition, stating "microinsurance units [are] community-funded health insurance schemes that are neither commercial nor national. These microinsurers do not have access to resources and financial techniques of

[69] http://www.microinsurancenetwork.org/microinsurance/key-concepts

commercial insurance".[70] However, as microinsurance developed, it grew beyond the local level, especially through the involvement of commercial insurers.

Microinsurance Innovation Facility (International Labour Office, Microinsurance Innovation Facility) defines micro-insurance as a mechanism for protection of the poor against the risks (accident, illness, death, natural disasters, etc.) in exchange for the payment of insurance premiums, which is adapted to their needs, income and level of risk.

Churchill Craig, as previously mentioned, one of the authors who is dedicated to microinsurance define microinsurance as the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. This definition is essentially the same as one might use for regular insurance except for the clearly prescribed target market: low income people.[71] Having in mind the mentioned definition, it is clear that the concept of microinsurance is named not because of the size of the risk, institutions or delivery channels, but due to the fact that this type of insurance is adapted to the needs of people with lower incomes. Microinsurance is intended for people who do not have access to the "traditional" insurance and which are excluded from the national social security programs, often employed in the informal sector of the economy. The essence is in need for providing fast, cheap and simple insurance coverage for individuals who dispose with modest financial funds.

Analyzing the literature committed to microinsurance, definitions of microinsurance can be categorized as follows:

- ***Consumer based definitions*** - these definitions use "micro" in reference to the consumers of the microinsurance products. The clients are "micro" in the sense that they have low net worth, low income, little property or assets, etc.
- ***Prouduct based definitions*** - these definitions apply the term micro to characteristics of the products, such as having low premiums, low levels of coverage, being affordable and accessible, etc.

[70] David Dror, Social Reinsurance: A New Approach to Sustainable Community Health Financing, *Washington, DC: World Bank and Geneva: International Labour Office. © World Bank.*

[71] Churchill, C.: Insuring the Low – Income Market: Challenges and olutions for Commercial Insurers, The Geneva Papers, 2007, 32, (401-412), International Labor Organisation, Social Finance Programme, Geneva, 2007

- ***Level of society based definitions*** – these definitions consider “micro” in terms of who supplies microinsurance, i.e. local organizations as opposed to government provision.
- ***Consumer and product based definitions*** - these definitions relate “micro” to the consumers and the products referring to both the low-income population and product that are affordable, have low premiums, etc.
- ***Consumer and level of society based definitions*** - where “micro” refers to the consumers and the level of society.

Moreover, the definitions may have a qualitative, quantitative or at the same time qualitative and quantitative determinations, depending on whether definitions determine microinsurance only on descriptive way or include certain values and preferences.

International Association of Insurance Supervisors (IAIS)[72] determines microinsurance as insurance on which have an access population with low income, which is provided by numerous institutions, but which are managed according to generally accepted insurance practices, suggesting that risks accepted in coverage based on microinsurance are managed based on principles that are generally accepted in insurance and that these risks are financed by the collected premiums. IAIS stated that establishing a microinsurance definition is generally the starting point for any microinsurance regulation; a definition of microinsurance ensures that regulation can be tailored to the risk profile of insurers writing inclusive insurance business as well as the risk profile of the typically more vulnerable inclusive insurance consumer.[73] IAIS also determined key elements that should be incorporated into the definition, and in accordance to IAIS those key elements include:[74]

- A general description of what microinsurance is – in qualitative and/or quantitative terms;
- The intended client groups – e.g. the ‘low-income segment’ or the ‘underserved’ in general; avoid a narrow definition of the target group;
- The business of microinsurance – e.g. to tailor prudential requirements to lower risk business;

[72] http://www.iaisweb.org

[73] IAIS, Report of the 16th A2ii – IAIS Consultation Call Regulatory Definition of Microinsurance II 19 May 2016, pp. 2

[74] IAIS, Report of the 16th A2ii – IAIS Consultation Call Regulatory Definition of Microinsurance II 19 May 2016, pp. 3

- The microinsurance underwriter – allow those who should be viable and do not exclude conventional insurers;
- Microinsurance agents or distribution channels – their expertise should be commensurate with the advice to be given, which depends of the type of products that they can distribute; require proportionate training and lighter licensing requirements;
- The microinsurance product, which has to be simple and could be in many classes, e.g. life, nonlife, personal, family, commercial;
- The microinsurance contract, which should be simple with reduced exclusions; limited contestability for misstatements; include the ability to combine various types of coverage.

In any case, microinsurance is a financial service for protection from many everyday risks of the most vulnerable categories of population in society, contributing to their inclusion in the financial sector, reducing poverty and enhancing economic growth and development of the country.

SOCIALLY VULNERABLE STRATA OF THE POPULATION IN MACEDONIA - OPPORTUNITIES AND NEED FOR MICRO INSURANCE

Transition through which the Macedonian economy passed, led to differentiation and social stratification of the population through major shift in the social structure of the population. Basically, population transfers were directed towards to the bottom of the social pyramid, while sharp its peak, especially in the period of the transition from socialistic to market economy and the process of privatization. In order to conclude the current situation of socially vulnerable categories of the population, relevant statistical data will be used. Considering the orientation of Macedonian Statistics to international standards and the need for providing internationally comparable data, as a starting definition of poverty is used definition of Eurostat. Eurostat defines the term *poverty* as: “for poor people are considered persons, families and groups of persons whose resources (material, cultural and social) are at a level that excludes them from the minimum acceptable manner of living in the country in which they live”.

Poverty analysis for the period from 1997 to 2011 (Table 1.) shows that in fifteen years period the average poverty rate is 27.2% and that about a quarter of Macedonia's population fall into the category of poor during the whole analyzed period.

Table 1. Poverty Analysis for the period from 1997 to 2011

Poor people of the total population			
year	Poor people in %	year	Poor people in %
1997	19,0	2005	30,0
1998	20,7	2006	29,8
1999	21,0	2007	29,4
2000	22,3	2008	28,7
2001	24,6	2009	31,1
2002	30,2	2010	30,9
2003	30,2	2011	30,4
2004	29,6		

Source: According to the State Statistical Office

Living below the poverty threshold, which occurs in a number of citizens reflects an inability to settle their basic needs, or to cover the cost of normal living (electricity, water, etc.); the ability to deal with unforeseen (or hardly predictable) risks, whose probability of occurrence is very small, is far beyond the financial capacity of this category of people. The first calculations of poverty rates dating from 1996, while the first policy documents (such as the National Strategy for Poverty Reduction [Ministry of Finance (2002) National Strategy for Poverty Reduction in the Republic of Macedonia, Skopje], are published in 2002.[75] In any case, the "treatment" of the poverty problem requires its precise definition and measurement. Poverty can be defined as a condition in which needs are not properly provided, or if households lack resources for meals, activities, and living conditions and arranging, that are commonly or widely supported and approved by the society to which they belong. Numerous analyzes show that poverty in Macedonia has the following features: it is primarily with rural inclinations present in agricultural households, more present in households with more members, most of which with low education and unemployment. So, as risk groups of the population who are "socially vulnerable categories" are: unemployed, socially disadvantaged households, pensioners and farmers. Even this categorization of socially vulnerable part of the population gives an initial starting point for targeting the potential need (and possibly demand) on the microinsurance market. Trying to deal with this problem, in Macedonia has been adopted and implemented *National strategy on alleviation of poverty and social exclusion in the Republic of Macedonia*

[75] Ministry of finance, (2002), *National Strategy for Poverty Reduction in the Republic of Macedonia*. Skopje

2010-2020. Based on this strategy, ***the main strategic goal*** for reducing poverty and social exclusion in the Republic of Macedonia is:

Reduction of poverty and social exclusion in the Republic of Macedonia through better use of available human and material resources, improve living conditions, work conditions and social conditions for all citizens, systemic and institutional collaboration in a function of faster development, higher living standards and better living.[76]

For its part, the application of microinsurance offers the opportunity for achieving the overarching objective of reducing poverty and social exclusion by including these layers of the population in financial flows and covering any eventual damages by the insurance industry, and not by the state budget.

According to the State Statistical Office data, in 2011, the percentage of poor people in the Republic of Macedonia was 30.4%. The poverty depth index for the same year is amounted to 9.3%. Analyzed by profiles, the most vulnerable groups are again multi-member households, bearing in mind the fact that 48.5% of the poor people live in households with five and more members. The education of the household head influences the number of poor people; namely, 54.6% of the poor live in households where the head of the household has no, or have at most primary education. The rate of poverty among the unemployed is higher and is 40.7%, i.e. 46% of all poor people are unemployed.[77]

---

[76] Ministry of Labour and Social Policy, (2013), *National strategy on alleviation of poverty and social exclusion in the Republic of Macedonia 2010-2020*, Skopje, pp.4

[77] State Statistical Office, Republic of Macedonia, News Release No: 4.1.12.50, 11.07.2012, pp. 1

Table 2. Relative poverty by economic status of household members, 2009-2011

70% of median equivalent expenditures

	2009			2010			2011		
	Head Count Index	Poverty Gap Index	Composition of poor	Head Count Index	Poverty Gap Index	Composition of poor	Head Count Index	Poverty Gap Index	Composition of poor
Total	31.1	10.1	100.0	30.9	10.9	100.0	30.4	9.3	100.0
Unemployed	40.5	13.7	42.7	41.8	16.0	44.8	40.7	14.1	46.0
1 worker	32.5	10.4	33.8	30.5	10.1	32.8	30.0	8.4	31.8
2 workers and more	21.0	6.4	23.5	20.6	6.6	22.3	20.2	5.3	22.2

Source: State Statistical Office, Republic of Macedonia, News Release No: 4.1.12.50, 11.07.2012, pp. 3

In order to follow the chronology of the poor population in the Republic of Macedonia and the determination of the current situation, the following is a brief elaboration of poverty lines, relative poverty line and indices of poverty for the last time period, according to the methodology used by the State Statistical Office of the Republic of Macedonia. The poverty line is defined as the standards of living, which have to be reached for one person/household not is classified as poor, where:

- Relative poverty line - relative standard of subsistence determined as the necessary level of expenditure;
- Subjective poverty line - subjective standard of subsistence based on the opinions expressed by the entire population for the level of income needed to avoid poverty.

In order to enable comparability of households that differ in size and demographic composition it is necessary to use equivalence scales, as a deflator that equalize those differences. There are several types of equivalence scales applicable for calculation of the poverty line, but the State Statistical Office of Republic of Macedonia uses the *OECD equivalent scale*. In calculating the *relative poverty line* the concept of expenditure is used. According to that concept, should be considered all expenditures on food and non-food products and services, and is included the value of consumption from own production. Consumption does not include expenditures that have the character of transfers as membership fees, contributions, gifts, return of debts and savings. It also does not include costs which have the character of investment as buying and investing in their own apartments because they do not constitute existential budget. Based on the established levels of poverty line the percentage of persons whose costs are below 70% of median equivalent cost is calculated. *The total aggregate poverty headcount index* represents the percentage of people living below the poverty line, and *The index of poverty gap* - the average proportional lack of expenditure for the whole population (instead of all poor people).[78]

The State Statistical Office, based on the Survey on Income and Living Conditions, which is carried out in accordance with European Union recommendations, in 2015 has calculated *Laeken poverty indicators* for 2013 and 2014. The source for poverty calculations is incomes, and the poverty threshold is defined at 60% of median equivalised income. According to the data, the at-risk-of-poverty rate in the Republic of Macedonia in 2014 was 22.1%. Analysed by household types, the at-risk-of-poverty rate in households of two adults with two dependent children in 2014 was 25.0%. According to the most frequent activity status, the at-risk-of-poverty rate for employed persons was 9.8%, while for pensioners it was 8.4%. The Gini coefficient (measure of income distribution inequality) was 35.2%.[79]

Table 3. Poverty and social exclusion indicators, 2012-2014

	2012	2013	2014
At-risk-of-poverty rate, % of population	26.2	24.2	22.1
Number of persons below at-risk-of-poverty threshold, in thousand persons	540.1	500.4	457.2
At-risk-of-poverty threshold of single-person household - annual equivalent income in denars	67.200	70.275	71.925
At-risk-of-poverty threshold of four-person household (2 adults and 2 children aged less than 14) - annual equivalent income in denars	141.120	147.578	151.043
At-risk-of-poverty rate before social transfers and before pensions, % of population	42.6	41.0	41.7
Inequality of income distribution, S80/S20, %	10.2	8.4	7.2
Inequality of income distribution, Gini coefficient, %	38.8	37.0	35.2

Source: State Statistical Office, Republic of Macedonia, POVERTY LINE, NEWS RELEASE, 25.12.2015, Year LIII, No: 4.1.15.100

[78] http://www.stat.gov.mk/MetodoloskiObjasSoop.aspx?id=37&rbrObl=13

[79] State Statistical Office, Republic of Macedonia, POVERTY LINE, NEWS RELEASE, 25.12.2015, Year LIII, No: 4.1.15.100

Presented data from the last two decades (period from the beginning of microinsurance development in the world) show that 1/3 to ¼ of the population of Macedonia is classified as poor population. Such categorization means that this part of the population either has no knowledge of the need and functions of insurance, or insurance considers as luxuries and unnecessary expense to the already modest budget in its possession. In this sense, microinsurance as a product intended for socially vulnerable categories of the population has the potential for penetration on the insurance market in Macedonia. On the other hand, the modalities through which this product would be offered requires much broader discussion that emerges out from the spatial framework of this paper, having in mind that Macedonia has a small demographic potential and is not a big market for which the big insurance would like to compete.

MICROINSURANCE IN THE WORLD – SOCIAL AND ECONOMIC DIMENSION

Microinsurance differs considerably from classical, traditional insurance. Its targeting to poor and socially vulnerable categories of the population gives specific topics, primarily of social character despite its economic dimension. Among the basic specificities of microinsurance can be cited:

- The target groups of microinsurance are persons with low income, poor or at risk of poverty who have not knowledge of the concept and the effects of insurance or insurance consider as the need of the rich. On the other hand, it at the same time the most vulnerable categories of the population exposed to a number of risks and with an inability to independently cover any possible incurred damages;
- Microinsurance is sold at very low premium (taking into consideration the users for which it is intended), which further emphasizes the law of large numbers and the principles of reciprocity and solidarity as fundamental principles of insurance. The low premiums are an advantage for users of this service, but causes numerous pricing challenges for companies that offer this kind of service;
- In the multitude of products that microinsurance offer, most often it is about a group insurance, which means the insurance policy covers a larger number of insurees;

- The need to reduce the price of this type of service at the lowest possible level and structure of the target group for which these products are intended creates a need of intense creativity and innovation of a subjects that offer microinsurance products, primarily in respect of information channels and channels of products distribution;
- Microinsurance policies usually are prepared in simplified form, brief, clear, precise and understandable for people with lower levels of education. Often there is an opportunity to pay the premium in installments, in cash, at irregular intervals (according to the income frequency of the insured) in unequal amounts, all in order to approach the product to a wider groups of population.

As most common types of microinsurance products can be considered:

- ✓ Credit life;
- ✓ Term life/Personal accident;
- ✓ Savings life;
- ✓ Property insurance;
- ✓ Endowment life;
- ✓ Health insurance;
- ✓ Agriculture.

Much research has been done on client value of microinsurance, but many gaps in understanding of client value remain. Emerging evidence on the impact of microinsurance shows that it can, and often does, provide value for low-income people. Microinsurance protects clients from financial losses, reduces their vulnerability, and improves their health. The value of microinsurance, either direct or indirect, represents the added value in comparison to other available risk coping mechanisms, of having insurance either when claims are made or as a result of the changed behavior caused by owning a policy and trusting that it will be honored. Client value is comprised of:[80]

- ***Expected value***: the value clients may get from a product through behavioral incentives and "peace of mind", even if claims are not made
- ***Financial value***: the value of the product when claims are made as it compares to other coping strategies
- ***Service quality value***: the externalities created by providing access to product-related services

[80] http://www.microinsurancecentre.org/milk-project/client-value.html

But high-value products are not achieved instantly anywhere in the world. In new microinsurance markets, it is important to start with basic products, which offer straightforward and limited benefits to clients. As the market develops and clients and providers become more familiar with microinsurance, more complex products, such as health and agriculture microinsurance, become possible. These in turn have a much higher impact on the lives and livelihoods of low-income people. Microinsurance protects clients from financial losses. Clients bear fewer expenses when they experience a shock. In the case of health insurance, a number of studies demonstrate that cashless schemes, which do not require clients to pay on receiving the service, reduce out-of-pocket health expenditure.[81] Beyond the direct impact on the out-of-pocket expenditures, insured individuals may also benefit from a lower need to sell assets in order to cope with unexpected health expenditures. Since insurance covers (part of) the expenses incurred following a shock and hence reduces the overall financial burden of the adverse event, dissaving stops being the only option left to the household.[82] In this sense, microinsurance is not an end in itself and at the same time achieves macro-economic and micro-economic goals. Besides the economic dimension, encouraging entrepreneurial ideas and development acceleration, microinsurance accomplished also a number of broader social goals such as: poverty reduction, increase of health care, reduce deaths (mostly from lack of access to adequate levels of health care), increasing productivity in agriculture, favoring some important but not attractive economic activities (branches of branches of livestock, agriculture, fisheries etc., connected and dependent on weather conditions, and so on).

A simple definition of client value states that value is the difference between what the customer gets from a product, and what he or she has to give.[83] When relating this to microinsurance, we could think of value as the difference between quantified benefits and premium. When trying to improve value, we need to find ways to increase benefits and reduce costs for customers. However, as microinsurers continue to analyse the client value proposition of their products, they have realized that value is multi-dimensional and goes beyond benefits and costs. Equally important is the

[81] International Labour Office, Microinsurance Innovation Facility, PROTECTING THE WORKING POOR, ANNUAL REPORT 2013, Social Finance Programme – Enterprises Department, 2014, pp.25

[82] International Labour Office, Microinsurance Innovation Facility, Ombeline De Bock Darwin Ugarte Ontiveros, LITERATURE REVIEW ON THE IMPACT OF MICROINSURANCE, RESEARCH PAPER No. 35, October 2013, pp. 4

[83] http://www.businessdictionary.com/definition/customer-value.html

need to provide easy access to insurance and to improve people's experience of the enrolment and claims processes.[84]

A very important point in increasing the penetration on the market is to design microinsurance products with the client's perspective in mind. That means, having in mind the social component of microinsurance, how to move from a supply-side to a demand-side mindset? The first step should be factoring the client's perspective into product and process design by using client-centred methodologies. These include interviews conducted in customers' homes or places of work, observation of users' daily routines, understanding the context in which products will be used, and detailed one-on-one interviews to thoroughly understand how clients behave and their underlying needs. Low-income households live complex financial lives. Depending on the context or specific group, people's current risk management strategies have gaps, some of which can be filled by insurance. Demand for microinsurance is a complex issue. Many factors influence a household's decision to buy microinsurance, including personal characteristics like age, understanding of insurance, trust and the ability to pay. Understanding people's needs and behaviour is key to identifying opportunities to add value to their lives with insurance and improving demand.[85]

Taking into account the features and benefits offered by microinsurance, and the presence of the poor in the population structure in the world, it can be concluded that the microinsurance market has a great potential. It is a market in underdeveloped and developing countries, in most cases refers to the rural areas, customers at a lower educational level, on the bottom of the economic pyramid, a market that is poorly served and is not integrated into the national and global market economy.

A number of international organizations and institutions (Munich Re Foundation in collaboration with the MicroInsurance Centre, the ILO's Impact Insurance Facility, the Microinsurance Network, the World Map of Microinsurance (WMM) and other organisations) work on developing, disseminating and implementing of the microinsurance products. For instance, The MicroInsurance Centre (MIC) is a consulting firm dedicated to generating access to valuable microinsurance products to 3 billion low-

[84] International Labour Office, Microinsurance Innovation Facility, PROTECTING THE WORKING POOR, ANNUAL REPORT 2013, Social Finance Programme – Enterprises Department, 2014, pp.28

[85] International Labour Office, Microinsurance Innovation Facility, PROTECTING THE WORKING POOR, ANNUAL REPORT 2013, Social Finance Programme – Enterprises Department, 2014, pp.35

income people across the globe. This is accomplished by working with regulated insurers and appropriate delivery channels who can efficiently provide simple, market-responsive microinsurance products. The clients include commercial insurers, foundations, bi- and multi- lateral development agencies, regulators, NGOs and others. These organizations work with the mentioned Centre (MIC) to ensure the best potential for success with their microinsurance activities. Their work with clients includes various aspects of microinsurance, from product development and training to research and advocacy. The team of MIC has implemented microinsurance activities in over 70 countries during the last twenty years and their mission is: to get SUAVE (simple, understood, accessible, valuable, and efficient) microinsurance products in the hands of 3 billion people across the globe.[86] So far, microinsurance products are successfully implemented in Africa, Latin America and the Caribbean, Asia and Oceania. However, there is a difference in the structure of microinsurance markets analyzed according to countries and regions worldwide. Thus, some countries make up the segment of people with the lowest income, such as Nigeria, while other countries such as Ukraine covers poor with higher income. Asia and Africa make up the rural market segment of low-income and Eastern Europe, Latin America and the Caribbean include the urban segment of this market. Microinsurance already covers around 135 million people, or around 5% of the potential market. In many countries, annual growth rates are 10% or higher.[87] In the same direction is the statement of Premasis Mukherjee, Senior Manager, Social Security and Insurance : "Microinsurance is the next wave of financial inclusion. With the advance of digital finance and convergence of government social security in favour of social microinsurance, the market is ripe for innovations. Besides, there is lot of scope for innovation in microinsurance in terms of behavioural understanding of the potential clients and strategic understanding of emerging distributions in microinsurance/mass insurance. These are reasons for exciting times ahead in the sector".[88]

In 2015 the Microinsurance Network and Munich Re Foundation launched the World Map of Microinsurance (WMM), an interactive online map that provides key global data on microinsurance. Via this map, follows the current situation and representation of the microinsurance worldwide.

[86] MicroInsurance Centre, LLC, Appleton, Wisconsin, U.S., Annual Report 2015, pp. 4

[87] Lloyd's 360° Risk Insight, Insurance in Developing Countries: Exploring opportunities in Microinsurance, MicroInsurance Centre, pp. 3

[88] Premasis Mukherjee, Social Security and Insurance, from the Interview for Microinsurance Network

The landscape studies which are part of WMM have been led by the Munich Re Foundation in collaboration with and support from the ILO's Impact Insurance Facility, the Inter-American Development Bank, the African Development Bank, the Asian Development Bank, and Making Finance Work for Africa (MFW4A), GIZ on behalf of BMZ, and the Microinsurance Network. This pioneering research has been carried out by the MicroInsurance Centre (Landscape study of 100 poorest countries, 2006, Latin America, 2011 and Africa, 2012) and MicroSave (Asia, 2013). The mission of the WMM programme is to collect factual sector data in an unbiased manner, with the objective of promoting transparency, monitoring growth, identifying trends and inspiring innovation. The map enables insurers and microinsurance practitioners to gain a birds-eye view of the landscape of microinsurance worldwide, and search and extract sector-specific data by region to gain insights into trends for decision making.[89] Based on the last 3 latest regional landscapes (Latin America and the Caribbean - 2014; Asia – 2013 and Africa – 2012), total self-reported coverage of microinsurance in three major microinsurance regions of Africa, Asia and Latin America stands at 263.4 Million lives and properties which (based on self-reported data) generated microinsurance premiums worth USD 2.1 billion.[90]

Table 4. MicroInsurance Worldwide

Regional landscape	Total lives and properties covered (in mn)	Total microinsurance premium (in mn USD)	% of total population covered
Latin America and the Caribbean – 2014	48.6	830	7.9
Asia - 2013	170.4	829	4.3
Africa – 2012	44.4	475	4.4
Total:	263.4	2.134	

Source: Microinsurance Network, http://worldmapofmicroinsurance.org

In any case it must be emphasized that landscape studies for microinsurance refer to several previously mentioned regions of the world (Latin America and the Caribbean; Asia; and Africa). In Europe,

[89] The State of Microinsurance - The Insider's Guide to Understanding the Sector, MICROINSURANCE NETWORK'S ANNUAL MAGAZINE, ISSUE NR 2 – 2016, pp. 48

[90] http://worldmapofmicroinsurance.org

microinsurance is extremely poorly addressed and till now has not been prepared relevant study for the presence and potential claimants of these products, besides that The World bank provides data monitoring of world poverty (In this context Table 5 presents data on the countries of Europe and Central Asia[91]). According to the presented data, about 14.10 million people in Europe and Central Asia (2012) are living in households with consumption or income per person below the poverty line.

Table 5. Global poverty monitoring – Europe and Central Asia

Country	Pov.line (PPP$/day	Mean ($/Day)	Headcount (%)	Pov.gap (%)	Population (mil.)	Survey year
Albania	1.90	225.28	1.06	0.22	2.90	2012
Armenia	1.90	178.60	1.74	0.33	2.97	2012
Azerbaijan	1.90	445.86	0.00	0.00	9.30	2005
Belarus	1.90	579.86	0.00	0.00	9.46	2012
Bosnia and Herzegovina	1.90	638.29	0.06	0.02	3.83	2007
Bulgaria	1.90	478.49	2.03	0.77	7.31	2012
Croatia	1.90	679.68	0.00	0.00	4.27	2010
Czech Republic	1.90	799.89	0.06	0.08	10.51	2012
Estonia	1.90	701.86	0.99	1.21	1.32	2012
Georgia	1.90	167.22	15.49	5.04	4.49	2012
Hungary	1.90	568.43	0.26	0.21	9.92	2012
Kazakhstan	1.90	342.73	0.06	0.01	16.79	2012
Kosovo	1.90	395.18	0.03	0.01	1.81	2012
Kyrgyz republic	1.90	155.40	2.91	0.74	5.61	2012
Latvia	1.90	545.57	1.38	0.97	2.03	2012
Lithuania	1.90	602.01	1.03	0.75	2.99	2012
Macedonia	1.90	352.68	2.19	0.40	2.11	2008
Moldova	1.90	272.90	0.34	0.04	3.56	2012
Montenegro	1.90	413.71	1.26	0.52	0.62	2012
Poland	1.90	497.00	0.02	0.00	38.54	2012
Romania	1.90	264.86	0.00	0.00	20.06	2012
Russian Federation	1.90	786.43	0.04	0.01	143.18	2012
Serbia	1.90	390.91	0.10	0.01	7.20	2010

[91] the context in which these data are monitored, the coverage stands at Eastern Europe

Slovak Republic	1.90	851.59	0.24	0.12	5.41	2012
Slovenia	1.90	1,002.98	0.03	0.00	2.06	2012
Tajikistan	1.90	164.54	4.74	0.90	8.01	2009
Turkey	1.90	497.06	0.26	0.01	74.00	2012
Turkmenistan	1.90	252.77	3.17	0.49	5.17	1998
Ukraine	1.90	377.17	0.00	0.00	45.59	2012
Uzbekistan	1.90	100.15	27.11	7.55	29.77	2003
Europe and Central Asia	1.90	/	2.11	0.58	480.78	2013

Where:

"PPP" -	refers to Purchasing Power Parity. The default option is the PPP rates for consumption in 2005 estimated by the World Bank's Development Data Group.
"PL" -	Poverty line. The default poverty line is $1.9 per day.
"Mean$"-	The "Mean$" is $ the average monthly per capita income/consumption expenditure from survey in 2011 PPP.
Headcount (H) -	% of population living in households with consumption or income per person below the poverty line.
Poverty Gap (PG) -	mean distance below the poverty line as a proportion of the poverty line.
"Survey year"	The "Survey year" is the year in which the underlying household survey data were collected.

Source: adapted toaccording to The World Bank IBRD-IDA (Working for a World free of poverty) PovcalNet: an online analysis tool for global poverty monitoring http://iresearch.worldbank.org

While there have been many breakthroughs in microinsurance market penetration in recent years, there are glaring geographic disparities, with oases of success amid vast deserts without coverage. The insurance industries in many countries have not been able to fulfil their potential to support economic development. Although a few countries are pushing ahead, the majority remain in the first two stages of development. There is currently an urgent need to accelerate the growth of emerging insurance markets in these countries. In 2015, 70% of natural and man-made catastrophe losses were not insured. When there is a disaster such as an earthquake or a hurricane, it is the low income people that are most affected and pushed back into poverty.[92] Insurers recognize this need. This year The Economist's Intelligence Unit's survey of insurers found that nearly one-half (45%) of respondents said that supranational organizations should work with developing countries to inform policymakers better of the value of catastrophe insurance and other forms of insurance as a top priority.[93]

CONCLUSION

Micro insurance enters within the financial services market, which experienced expansion in recent years. In contemporary conditions, globally there is an initiative for convergence of financial services to persons from socially vulnerable groups, i.e. those which by now given low incomes were excluded from the financial markets. Today, more and more emphasis is put on the fight against poverty and reducing the number of people with low incomes in the world. The largest contribution to this has the World Bank which cooperates with the governments of the countries that need the greatest help. Microinsurance offers a visiable alternative for low income households to manage their risks. At the same time, it is increalingly untapped growth segment for the insurance sector.

Besides the already pronounced social dimension of microinsurance, the inclusion of people with low incomes and those at risk of poverty in formal financial flows, realize economic benefits for the insurance industry too, and for development of the financial system as a whole. The category of people with low incomes are seen as potential consumers who aspire to join the group of people with middle and high income and that in the long run will bring profit to those entities which in this moment have the will to invest in this market of the future. Having in mind the analyses of the World Bank, in the last decade about 500 million people crossed from the group of low-income into the group of people with average income, which goes into direction of the thesis that the economic dimension of microinsurance is pronounced and there is great potential for expansion of the insurance market. Although the microinsurance business at first glance looks like a business with low incomes, yet it is a potential generator of long-term incomes in the future. In any case, it is a large potential market that can be developed through multiple modalities, starting from state subventions, through public private partnership, up to commercial microinsurance.

---

[92] Martyn Parker, Swiss Re, from the Interview for Microinsurance Network

[93] International Labour Office, Microinsurance Innovation Facility, PROTECTING THE WORKING POOR, ANNUAL REPORT 2013, Social Finance Programme – Enterprises Department, 2014, pp.38

The potential market for insurance in developing economies is estimated to be between 1.5 and 3 billion policies. There is significant demand for a range of insurance products from health and life, agricultural and property insurance, to catastrophe cover. Besides profits, there are several other benefits for commercial insurers providing microinsurance: a larger and diversified risk pool, benefits to reputation, and market intelligence and innovation that can be applied to other business activities. In the longer term, the combination of first mover advantages and sustained growth in developing markets can lead to strong future business prospects. In that sense, very large and powerful insurance and reinsurance companies on the potential of microinsurance see as a win-win situation. It helps design better products, gain a competitive edge, and thus stimulate the market in the long term. More theorists and practitioners in the insurance sector believe that the potential of microinsurance market will be opened and filled with large growth rates, at least in the next 10 years.

With the incorporation of the 2015 Africa landscape study data, the map shows that today over 280 million people worldwide are covered by at least one microinsurance policy. Regarding the potential for development and distribution of microinsurance products in Europe, the data show that especially in Eastern Europe, significant percentage of the population is at the poverty line and there are social and economic reasons for the implementation of these products. Strengthening the intensity and frequency of catastrophic risks (climate changes and natural disasters) even more goes in favor of the need for penetration of the microinsurance products to European territory. Empirical data show that catastrophic risks particularly strongly hit the poorest categories of the population who have not signed commercial insurance policies, and do not have the financial capacity to independently manage the consequences of the damages incurred. Available data worldwide show that many of the natural disasters and those caused by man, caused damages and losses that are not insured. In such cases, people with the lowest incomes are the most affected and pushed them back into poverty. In this regard, the function of microinsurance is essential. It remains only to formulate the products modalities and the channels of distribution of this form of insurance.

LITERATURE

Amit Kalra, Microinsurance - Risk Protection For 4 Billion People, Swiss Re Company, 2010

Craig Churchill, Insuring the Low – Income Market: Challenges and olutions for Commercial Insurers, The Geneva Papers, 2007, 32, (401-412), International Labor Organisation, Social Finance Programme, Geneva, 2007

Craig Churchill, Protecting the poor: A Microinsurance Compendium, International Labor Office, Geneva, 2006

Dror David, Social Reinsurance: A New Approach to Sustainable Community Health Financing, Washington, DC: World Bank and Geneva: International Labour Office. © World Bank

http://media.swissre.com/documents/sigma6_2010_en.pdf

http://worldmapofmicroinsurance.org

http://www.businessdictionary.com/definition/customer-value.html

http://www.iaisweb.org

http://www.microinsurancecentre.org/milk-project/client-value.html

http://www.microinsurancenetwork.org/microinsurance/key-concepts

http://www.stat.gov.mk/MetodoloskiObjasSoop.aspx?id=37&rbrObl=13

IAIS, Report of the 16th A2ii – IAIS Consultation Call Regulatory Definition of Microinsurance II, 19 May, 2016

International Labour Office, Microinsurance Innovation Facility, PROTECTING THE WORKING POOR, ANNUAL REPORT 2013, Social Finance Programme – Enterprises Department, 2014

International Labour Office, Microinsurance Innovation Facility, Ombeline De Bock Darwin Ugarte Ontiveros, LITERATURE REVIEW ON THE IMPACT OF MICROINSURANCE, RESEARCH PAPER No. 35, October 2013

MicroInsurance Centre, LLC, Appleton, Wisconsin, U.S., Annual Report 2015

MicroInsurance Centre, Lloyd's 360° Risk Insight, Insurance in Developing Countries: Exploring opportunities in Microinsurance

Ministry of finance, National Strategy for Poverty Reduction in the Republic of Macedonia, Skopje, 2002

Ministry of Labour and Social Policy, National strategy on alleviation of poverty and social exclusion in the Republic of Macedonia 2010-2020, Skopje, 2013

Parker Martyn, Swiss Re, from the Interview for Microinsurance Network

Premasis Mukherjee, Social Security and Insurance, from the Interview for Microinsurance Network

State Statistical Office, Republic of Macedonia, News Release No: 4.1.12.50, 11.07.2012

State Statistical Office, Republic of Macedonia, POVERTY LINE, NEWS RELEASE, 25.12.2015, Year LIII, No: 4.1.15.100

The State of Microinsurance - The Insider's Guide to Understanding the Sector, MICROINSURANCE NETWORK'S ANNUAL MAGAZINE, ISSUE NR 2, 2016