BRIEFING NOTE 6

Microinsurance Innovation Facility

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PROTECTING THE WORKING POOR

International Labour Organization

FORMALIZING THE INFORMAL INSURANCE INHERENT IN MIGRATION: EXPLORING THE POTENTIAL LINKS BETWEEN MIGRATION, REMITTANCES AND MICROINSURANCE

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INTRODUCTION

In our increasingly global economy, labour continues to be a major export commodity for many developing countries. Since 1990, the number of people living outside their country has increased by nearly 40 percent, from 155 million to 214 million in 2010. Migration can help families mitigate their risks by increasing overall income levels and diversifying income sources. Moreover, having a family member abroad can serve as a form of informal insurance for families back home, as migrants often send funds during crises. Yet, many migrants tend to find themselves in positions of vulnerability in their host countries without any access to social safety nets. Emergencies can, thus, quickly erode any savings or assets that the migrant has. Migration can also create additional risks for both the migrant and the migrant's family by breaking up the family unit and making it more vulnerable to shocks. Migrant-linked insurance products can help transnational families manage their risks and protect their assets.

International remittance flows are increasing and are estimated to reach US$ 465 billions in 2011; the majority of remittances go towards meeting basic household needs. However, research suggests that migrants want more control over how their remittances are spent, and would like to allocate less to daily consumption and more to savings. Ideally, migrants could transfer some of the risk and responsibilities they bear to others. Insurance companies have the potential to transfer this risk efficiently, distributing it among larger risk pools. Mechanisms that allow transnational families to use a portion of their remittances to purchase formal insurance could help reduce their vulnerability.

Box 1 SegurCaixa's Repatriation and Accidental Death Insurance

SeguraCaixa in Spain, offers two migration-linked insurance products that have reached reasonable scale. In 2008, 66,000 legal migrants, mostly from Africa and Latin America, were insured with SegurCaixa Repatriación and 14,000 were covered by SegurIngreso. SegurCaixa Repatriación pays €30,000 upon the death of the migrant and covers the repatriation of the migrant's body to their country of origin from any country in the EU, as well as travel expenses for an accompanying family member or friend. Premiums start at €6 a month. Through SegurIngreso, beneficiaries receive a payment of €6,000 as well as regular monthly income for five years in the event of the migrant's death. The monthly payments start at €7. Total premiums for the two products in 2008 were €6 million.

PRODUCTS & MODELS

There is a need to develop products specifically tailored to the risks of transnational families. Specific migration-linked insurance products include: i) products aimed at mitigating the unique risks faced by migrants in their host countries, such as accident or repatriation insurance; ii) those aimed at mitigating the unique risks of migrant's families in their home countries, in

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[1] This brief is excerpted from the Microinsurance Paper no. 7, which includes the relevant citations and details on methodology. The paper is available at www. Ilo.org/microinsurance. Jennifer Powers, Barbara Magnoni and Emily Zimmerman are part of EA Consultants.

protecting the flow of remittances if a negative shock should affect the migrants' ability to send money home; iii) those seeking to tap into remittance flows or the distribution channels and networks created by migration; and iv) those that tap into the migrants' desire to protect their families in their absence by formalizing the informal insurance provided by migration, such as health insurance. While organizations in Latin America and Asia have launched such programs (see Box 1), few have reached significant scale.

Three types of models have emerged to address the microinsurance needs of migrants and their families - the **Host** country model (where the migrant is working), the **Home** country model (where the migrant comes from) and the **Hybrid** model (see Table 1). The defining characteristic of each of these models is where the risk taking entity or insurer is based. **Host** models are best placed to insure migrants themselves as domestic insurers are already licensed in the country and therefore not subject to restrictions on the marketing and sale of insurance. They have the potential to reach large scale, though they are restricted by their traditional business models, which may not have products or delivery channels appropriate for the target clients. **Home** models may insure the migrant (easiest before departure) or the migrant's family depending on the product and the distribution channel. They may be linked to other financial products and services in the home country such as remittances or savings accounts. The **Hybrid** model is one in which risk-taking entities have a presence in both the home and the host country and thus can insure both the migrant and the migrant's family without encountering significant legal and regulatory hurdles. Despite this advantage, few insurers have implemented such a model, perhaps because insurance companies with an international presence tend to serve a higher-income segment of the market.

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CHALLENGES & OPPORTUNITIES

Legal and regulatory restrictions pose one of the most significant constraints to selling insurance to migrants and their families across borders as insurers are generally not licensed in both the home and host country. The constraints insurers face vary depending on the host and home country of the migrant, whether the migrant and/or family members in the home country are beneficiaries of the policies, and the location of the insurance company. These constraints are often under-researched or underestimated, yet are one of the main causes of "failure to launch" of programs.

Marketing and Sales challenges are significant due to the bi-localization of the target market as well as the cross-border nature of many programs. For migration-linked microinsurance models to be successful, they must either find a way to market to both sides of the transnational family or structure their program in such a way that one party has full decision-making power. For migrants seeking to insure their family members back at home, it is difficult for most models both to market and sell to the migrant as well as to subscribe the migrant's family. Initial findings indicate that it may be more effective to market migration-linked insurance products directly to the migrant. There is a special need for consumer education for the families of migrants as they are less familiar with the concept of formal insurance.

Operational processes including policy issuance, customer service, claims and verification can be challenging in cross-border transactions. Obtaining paperwork, for instance, for repatriation and life policies can be complex for a migrant's family back

Table 1 General Characteristics of the 3H Models

Model	Insured	Mitigates Risk for:	Need for an Intermediary	Leverages Remittances
Host Country	Migrant	Migrant and migrant's family (depending on product)	Maybe for marketing purposes	Unlikely
Home Country	Migrant's family (most likely) or Migrant (prior to departure)	Migrant (indirectly) and Migrant's family (directly)	Definitely if targeting migrant. Maybe if targeting migrant's family	Very possible
Hybrid	Migrant and/or migrant's family	Migrant and/or migrant's family	Maybe for marketing or money transfers	Possible

home. To address this issue, some home models manage claims through alliances with repatriation companies based in the host country.

Partnerships with third parties may be a way to overcome some of the marketing and sales challenges. The selection of partners, such as religious groups, sports groups or remittance agencies, that already have regular transactions and the trust of the community can add value to insurers. Insurers may also be able to tap into the social capital created by migration, such as through migrant organizations in the host country.

Insurers can also **tap into remittance flows** through partnerships with money transfer agents (MTAs) or banks in the home or in the host country. These partnerships could allow insurers to intervene at either the inception point or the reception point of the remittance flow. Partnerships with MTAs are most effective when remittances are largely sent through formal channels and are "smooth," rather than "chunky." Smooth remittances tend to be small, and are generally sent with regular frequency through formal channels. Chunky remittances tend to be larger, but are less frequent, less predictable and often sent through informal channels.

Table 2 summarizes the key opportunities and challenges of the three models.

Table 2 Summary of Opportunities and Challenges of the 3H Models

	Opportunities	Challenges
Home Country Models	More likely to understand needs of target client group More inclined to enter microinsurance given it is a big market in many "migrant exporting" countries Can more easily market, sell and administer policies for migrants' families – especially useful for insurance requiring service providers, such as health care Can tap into local distribution channels already working with the target clientele including remitters and MFIs to reach migrants' families) or migrant placement agencies to reach migrants	Legal barriers to marketing and selling insurance in host country Lack of proximity to migrant makes marketing to them more difficult Need a distribution channel in host country to work with migrants or to facilitate direct payment of premiums Demand constraints for products in home country (lack of consumer education required, trust, etc.)
Host Country Models	Legal and regulatory barriers likely to be less significant as insurers already licensed Can be a large untapped market, as migrants are generally not as well served by the financial sector and there is little competition from other insurers May have existing models that can support distribution (although not tailored to the target population) Migrants are more likely to demand insurance and be able to pay for it than family members Migrants often organized in associations/ networks which facilitates marketing	Less likely to understand the needs of the target group Less likely to have access to distribution channels working with the target population Customer support and claims administration are complicated where beneficiaries are family members in the home country
Hybrid Models	Avoid many of the legal and regulatory challenges because there are licensed insurers in both countries Can market more effectively to migrant and family –important where families make joint decisions Existing distribution channels in both countries (although may not to be tailored to target market) Can provide continuous service to migrants who return to home countries	Premiums may be higher as the partnership creates an additional layer Claims administration more complicated where beneficiaries and services are in both countries, and two insurers are involved Choice of law issues are more complicated

INITIAL LESSONS FROM EARLY EXPERIENCES

Early experiences in offering migration-linked microinsurance point to initial lessons that can inform future efforts. These include:

- Legal and regulatory constraints pose some of the most significant constraints to migration-linked insurance as insurers are generally not licensed in both the home and host country. It is essential that prior to launching a project the legal and regulatory issues are fully analyzed.
- It may be more effective to market migration-linked insurance products directly to the migrant, given the often divergent spending preferences of migrants and their families and the informal insurance responsibility of the migrant.
- The undocumented status of many migrants can pose serious challenges to marketing insurance products to them in their host countries.
- There is a significant need for consumer education and financial literacy to promote migration-linked insurance products, especially for the families of migrants.
- Finding an appropriate distribution channel is key to achieving scale.
- Insurers can benefit by selecting partners that are trusted by the community and have recurring transactional relationships with them.
- To facilitate payments, organizations offering migration-linked microinsurance products may be able to tap into remittance flows through partnerships with MTAs.
- Programs must take special care to develop claims procedures and customer support facilities that are accessible to the migrants and their families from abroad.

An analysis of existing programs can inform those interested in developing these models further. However, it is important to note that the opportunities and challenges encountered in migration-linked microinsurance models can be very specific to the country and migration corridor. The type of migration and the characteristics of the migrants can vary dramatically by country and region, thus warranting customized or adaptable approaches to migration-linked microinsurance.

Housed at the International Labour Organization's Social Finance Programme, the **Microinsurance Innovation Facility** seeks to increase the availability of quality insurance for the developing world's low-income families to help them guard against risk and overcome poverty. The Facility was launched in 2008 with the support of a grant from the Bill & Melinda Gates Foundation.
See more at www.ilo.org/microinsurance

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