

**INCLUSIVE FINANCE: NEXUS BETWEEN
MICROFINANCE AND MICROINSURANCE**

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Preamble

- Desire for inclusive finance is not new, it has been at the centre of development discourse for decades.
- Earlier attention was directed at rural finance which rose from the belief that the rural economy was deprived of adequate finance and therefore **epicentre of poverty**.
- Also, the quest to expand the frontiers of finance that gave rise to micro-credit and later microfinance.

Preamble

- Renewed attention to ‘financial inclusion’ in the past few years may be due to the i) inadequacy of credit-led approach in terms of **limited delivery channels** and ii) **comprehensiveness of services**
- Therefore, current financial inclusion discourse is dominated by **digitalization** and **expansion of the frontiers of finance beyond credit and savings**. Microinsurance is a prime focus.

Financial inclusion

- Financial inclusion is the availability of a range of financial services at affordable costs to all segments of the population particularly the disadvantaged and low-income groups. Financial inclusion is about liberalization of access to a complete suite of financial services *for all who are willing and able*. It is ***finance for all***.

Dimensions of Financial Inclusion

- ***Comprehensiveness of available financial services.*** Savings opportunities; credit of various types and terms; micro-investment and asset management services; insurance; leasing and factoring; mortgages; pensions; payments; local money transfers and international remittances.
- ***Un-hindered access for all*** without discrimination on grounds of disability, gender, faith and location; and
- ***Affordability.*** Interest rates, collateral and minimum account opening requirements and convenience of access are key issues in financial inclusion.

Microfinance

- Microfinance is provision of financial services to low-income people and their micro, small and medium enterprises usually excluded from the mainstream financial systems. They are seen as *unbankable*
- However, microfinance practice connotes more than the disbursement and collection of loan repayments and savings; rather, *it also refers to a set of elastic organizational structures and procedures by which appropriate financial services are delivered to low-income people and owners of micro enterprises on a sustainable basis*

Microinsurance

- Microinsurance products are designed to meet the need of low-income and micro and small scale enterprises.
- Microinsurance is therefore the *liberalization of access to insurance services; it is about taking various classes of insurance to the street.*
- Like its kin microfinance, microinsurance is about *little bits of services and application of flexible and innovative structures and processes to reach low-income people and their micro and small businesses.*

Microinsurance in Nigeria: opportunities

Huge Population

- Huge and exceptionally enterprising population presents huge opportunity to microinsurance practice.
- In the 2016 Survey by EFInA on Access to Financial Services in Nigeria 32.1 million Nigerian adults were reported to indicated interest in using Microinsurance products.

Microinsurance in Nigeria: opportunities

Increasing need for risk hedging

- Undesirable the worsening insecurity is, it presents opportunity for more Nigerians to seek risk hedging products. Owners of tricycles called Keke Napep are beginning to appreciate the need to insure their vehicles against theft.

Microinsurance in Nigeria: opportunities

Presence of Distribution Channels

- Micro-insurance like other small bits of services which target the low-income people requires aggregators and distribution channels. In Nigeria, there exist a variety of distribution channels. These include community-based associations; trade associations; cooperative societies and unions and of course, microfinance banks and institutions.

Microinsurance in Nigeria: opportunities

Policy and Regulatory Framework

- Microinsurance is no longer subsumed under the conventional insurance. It now has its policy and regulatory framework The 2018 Microinsurance Guidelines by NAICOM
- The guidelines have expanded beyond the traditional insurance brokers, to include cooperative societies, mutual associations, microfinance banks/institution, trade organizations, HMO, Faith Based organizations, Postal agents, etc

Financial inclusion: microfinance and microfinance Insurance

- They are key enablers of financial inclusion: they target those excluded from the mainstream financial system.
- While microfinance *empowers* low-income households and their micro and small enterprises; microinsurance *protects* their few assets and enhances the resilience of their highly vulnerable micro enterprises.
- To be feasible on a sustainable basis they adopt innovative approaches

Microfinance and microinsurance

- It is in the interest of micro-lenders and micro-insurers to collaborate:
 - A lender's risk is reduced once the risk of the borrower is well managed. It is a good risk management practice for a lender to seek and provide agricultural insurance policies for their farming borrowers;
 - The micro-insurer is able to reach a pool of policy holders who are already clients of the lender

Microinsurance and microfinance: Challenges thereof

- *Huge cost of operations*
- Like in most micro services, delivery of micro-insurance policies is not cost-effective.
- *Skill deficit*
- Most market facing staff of microfinance institutions do not have the necessary skills or competence to deliver insurance products

Microinsurance and microfinance: Challenges thereof

- *Infrastructure Challenge*
- Providing micro insurance may require national demographic and socio-economic data base. There is dearth of data and this could hinder effective under-writing by microinsurance acting in conjunction with microfinance institute

Microinsurance and microfinance: Challenges thereof

- *Social, cultural and religious barriers*

Many people exclude themselves from required insurance services on the basis of belief and cultural orientation. Many believe the insurance is not for them but for rich people and big businesses and people without faith. Other hide behind ***God forbid*** when offered insurance services.

Microinsurance and microfinance: Challenges thereof

- *Poor Awareness on Microinsurance*

The awareness level of Microinsurance is still very low. For most people especially the low-income people, it is a case of, *savings I know, loan I know, what is microinsurance?* Massive investment will be required to create awareness on awareness creation.

Success Imperatives and Recommendations

Capacity building

- Investment in capacity building for operators is imperative. The key factor in the global success of microfinance was the huge investment made by governments, development agencies and practitioners.

Success Imperatives and Recommendations

Awareness creation

- Stakeholders in the sub-sector should engage critical segments of the society, that is, religious, traditional and political leaders on the nature and benefits of microinsurance.
- Government and its poverty-focused agencies should recognise asset protection through adoption of microinsurance as a key factor in addressing mass poverty. Loss of asset deepens the poverty of the poor.

Success Imperatives and Recommendations

Flexibility and Simplicity

- Functional business models have to be innovative especially in the choice of a distribution channel as a way of cutting costs. Innovative use of technology may be adopted as a mean of enrolments.
- A functional micro-insurance model should be simple as regards the role of the insurer, distribution approach, product design and how services are provided. These are considered key drivers of all business models

Success Imperatives and Recommendations

Regulatory environment

- The good news, is the existence of a regulatory guidelines and the commitment of the schedule staff of the National Insurance Commission (NAICOM). Much still required to be done to deepen inclusive insurance.
- There is the need to engage all stakeholders including Central Bank of Nigeria on the review of provisions of the current Guidelines. Review to greater access by the low-income people; and attract investors to the sector.

Success Imperatives and Recommendations

Partnership and linkages

- To reach the poor in a sustainable manner will require collaboration between actors in the sector. There is much room for linkages between conventional insurance companies and microinsurance institutions. Microinsurance institutions should also build partnership with micro-enterprise focused institutions such as microfinance banks and trade associations that act as aggregators.

Closing Remarks

- Microinsurance and microfinance are key to the achieving twin goals of financial inclusion and poverty reduction.
- Low-income people and their micro and small businesses are highly vulnerable; assets and successes built up with access to credit over the years, could be wiped out by fire or floods.
- Like microfinance at its inception there are some challenges of micro-insurance delivery.
- They are overcomable with supportive regulatory environment and diligence and integrity of operators

Thank you for your attention