

Micro coverage a big help for Mexico's poor

A new plan to promote microinsurance could have a ripple effect in the region.

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Mexico City

Adela Amaya Chavez never considered life insurance. In fact she had no idea what it was.

But on a recent day when inquiring about a loan at Banco Azteca to repair the leaky drains in her home in Mexico City, she was told that if she paid an additional \$2 a week her family would receive \$6,000 if she were to die. Her first thought: the death of her nephew in a car accident in 2003 and the devastation it caused his family. "It was so sudden," says Ms. Amaya Chavez, who cleans office buildings for a living.

She signed up.

Once just a safeguard for the middle and upper classes, insurance is finding its way to all sectors of Mexico. For the poorest, microinsurance policies – often simple plans worth tiny sums of money – are giving protection to those Mexicans who work in the informal economy, often don't have bank accounts, and never dreamed of the luxury of having a Plan B.

Asia and Africa have pioneered microinsurance coverage for everything from death to droughts. But a new government-sponsored plan to promote such micropolicies in Mexico – with its sophisticated banking sector and second-largest population in Latin America – could have a ripple effect in the region, experts say. The plan is the first of its kind in Mexico and will focus first on basic life insurance, and later target health and property. What began as a community-based and nonprofit effort is now moving to a commercial venture expected to grow quickly – and could lead millions of Mexicans one step further away from poverty.

"Microinsurance can change tremendously the financial stability of these people," says Alfredo Honsberg, the CEO of Seguros Azteca, which offers tiny policies that cost from 50 cents to \$3 a week for clients who take out loans at Banco Azteca or buy products on credit at Elektra electronic stores, where branches of the bank are housed. "The financial impact [of a tragedy] can be devastating to a low-income family. Even kids cannot go to school because they have to work."

Microinsurance has been inspired by microfinance, which became part of the global lexicon last year when its pioneer, Bangladeshi economist Muhammad Yunus, won the Nobel Peace Prize for his efforts to alleviate poverty. But unlike microcredit loans that have immediate benefits, microinsurance is a tougher sell.

"They've never been exposed to any insurance in the past. These people don't have any bank relationship," says Daniel Garduno, the CEO of Seguros Banamex, which has offered life insurance to clients of Compartamos, Mexico's largest microfinance institution, since November 2006.

That coverage, which has reached 640,000 clients, is worth \$1,400. The group has also launched a pilot program to purchase additional coverage, in increments of \$1,400, for \$1 to \$7 a month. So far Banamex considers it a success: Of all of those offered the product, 50 percent have signed on, or 17,000 individuals. Officials expect to launch the program nationally in August. "The beauty of

this is giving access to insurance protection to hundreds of thousands who would never have dreamed of buying an insurance policy," says Jorge Hierro, executive director of institutional relations at Banamex.

Now the government is setting up new standards for microinsurance, to make it easier for institutions to reach the uninsured and to make sure they are protected. Officials hope to have new regulations in place by next month. "We expect massive growth," says Norma Alicia Rosas, the vice president of studies and analysis at Mexico's National Insurance and Finance Commission. "Those with few means should be just as protected as the rest."

The government wants to exempt agents from having to pass exams to sell microinsurance, as traditional insurance agents must do, since the policies are so simple. It wants policies to be written in simple language, with no exclusions, copays, or deductibles – to reach the largest number of clients while at the same time protecting them.

Across the globe, the world's largest financial institutions are entering the microinsurance fold. "Five years ago you had to tell insurers there was this thing called microinsurance," says Michael McCord, the president of the Microinsurance Centre in Wisconsin, which tracks the industry. "Now it's not what it is, but how do we make it work."

In a report looking at microinsurance in the world's 100 poorest nations, his group counted 246 microinsurers, not including government providers of social security, with 78 million people covered. Not all of the policies are addressing the needs of the populations they serve, however: Mr. McCord says too many are credit life plans that just pay off loans, not give money to the families of the deceased.

But many say that a focus on the poor is the first step toward financial inclusion. "There is debate over how much this is poverty alleviation, or stabilization of income," says Robert Annibale, the Global Director of Microfinance at Citigroup in London. But everyone aspires to get ahead. "For the vast majority it takes time, and going through the many stratas, they should be able to protect themselves and their families through insurance."

Since it launched three years ago, Seguros Azteca has sold 11 million policies. They have also exported the plan to other countries, such as Panama and Peru, and are working toward covering Mexicans working in the US, who send \$20 billion in remittances home each year.

Mr. Honsberg says that microinsurance can help change the cultural mind-set of poorer Mexicans who might not be accustomed to preparing for financial risks. Instead, when disaster strikes, they are forced to improvise: pulling their children out of school to work, selling a piece of land, or heading to the US.

On a recent day, Claudia Olvera stood in line to make a loan payment on a washing machine and heater that she purchased at Elektra. Last month, when she checked out, she was asked if she wanted to buy life insurance coverage for the course of her loan payment, 51 weeks. Clients can choose coverage ranging from \$1,500 to \$9,000. When they decline a window pops up on the checkout screen: "Remind your clients that this insurance brings tranquility to them and their families."

Ms. Olvera, a single mother of three, didn't need a reminder. She took out a policy for \$1 a week. "What if something were to happen to me?" she says.