

The first definition for micro-insurance was published in 1999, and referred to the use of insurance as an economic instrument at the 'micro' level of society (as opposed to the national level).<sup>i</sup>

Other definitions sprouted subsequently, where the term came to refer to 'low premium, low cover' products. In such definitions 'micro' came to be known as the small financial transaction that each insurance policy generated.

In 2005, the Indian Insurance Regulatory and Development Authority (IRDA) characterized micro-insurance by product features and made the distinction between insurance agents and micro-insurance agents who distributed only micro-insurance products.<sup>ii</sup>

Nowadays, the term micro-insurance is a combination of all previous definitions. The features are as follows:

- Transactions are low-cost;
- Clients are generally low net worth;
- Communities are involved in important phases of the process, such as product cover design and rationing of benefits;
- The essential role of micro-insurance is risk management of the whole group over and above what is possible at the level of the individual.<sup>iii</sup>

Micro-insurance fills many financial gaps. They are financial gaps of immediacy, such as expenses related to a funeral event (e.g. the coffin and catering); financial gaps that are related to the culture of the deceased (e.g. repatriation, and the unveiling of the headstone); and the longer term survival gaps for dependents, such as schooling and expenses associated with housing.

In South Africa, there may well be a trend towards take-up of 'mainstream' insurance as well as micro-insurance. In an environment where across all LSM's, there is a national shortfall of death and disability insurance of around R10 trillion<sup>iv</sup>, the message is clear that there is no such thing as too much insurance.

There is a reality of approximately 1000 deaths per day as a result of AIDS alone. The pressures on households are far-reaching where breadwinners have perished, and where older women and young children in communities are left behind in poverty. This remains a common scenario in the country. The need for any kind of mainstream or micro-insurance is therefore evident.

The biggest challenge in the no-advice, low-service paradigm of micro-insurance relates to attracting customers to buy as opposed to pushing products through financial advisers. How do we do the former where insurance remains a grudge purchase; where functional illiteracy and financial ignorance are widespread; and in a stringently regulated industry with a dubious reputation?

Derek Pead, CEO for Metropolitan Cover2go, in his presentation, **Micro-insurance as a poverty-reduction tool**, will grapple with some of these challenges and hopes to shed some light on the opportunities that this industry presents in Africa.

## Profile

Derek Howard Pead is the CEO of Cover2go, a division of Metropolitan Group. He has more than 30 years' experience in the life insurance industry, having led as chief executive for various successful business units in the areas of life assurance, employee benefits and, between 2002 and 2006, as CEO of the Metropolitan Retail cluster which included direct writers, group schemes business, direct marketing, customer services, and Metropolitan Odyssey.

Derek's unfailing passion for innovation, enterprise evolvment and re-engineering insurance has earned him the mandate at Metropolitan to head Cover2go, the division tasked with bringing simple, affordable, and opportune products that are bought, to the markets in South Africa and beyond.

Derek is married to Natalia, has three children and a grandchild. His interests, though wide-ranging, can be distilled to four activities – playing golf, watching sports and birds, and acquiring electronic gadgetry.

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<sup>i</sup> <http://en.wikipedia.org>, 2008/09/12

<sup>ii</sup> Ibid

<sup>iii</sup> Ibid

<sup>iv</sup> Hugo & Zondagh, 2007