Chapter 11
Access to Finance:
Developing Microinsurance Market in Turkey

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ABSTRACT

Microinsurance provides indemnity for those with low income and with limited access to insurance options. Aimed at supporting sustainable means of living for individuals, microinsurance is a market-based practice. Many microinsurance products focus on the famine and drought in Latin America, Africa and Asia and most commonly provided by European insurance companies. However, demand for microinsurance is also the case in developed countries. Microinsurance was introduced in Turkey in 2011 when 55,000 low-income women were insured as part of a microinsurance package created with the collaboration of Turkish Foundation for Waste Reduction (TISVA) and Güneş Insurance. This section provides information on the aim, importance, and scope of microinsurance which plays a significant role in action against poverty while explaining practices available in Turkey and the world.

INTRODUCTION

The indemnity provided by insurance is of critical importance for developed and developing economies. With this kind of an assurance, actors in economy are able to manage their risks and to compensate their loss without compromising on their cash flow. One of the requirements of a developing country to fulfill in order to become a developed country without being stuck in the "middle income trap" is to have this kind of an assurance cover all the income groups available in that country and to prevent the erosion of the accumulated capital being used to cover the losses. Ultimate goal, on the other hand, is to be able to channelize the capital flow the economy needs into investment without interruption.

Microinsurance is a type of insurance which is aimed to be available for any persons whose daily income is within the range of $1-4 and for those who are considered as the low-income group. The purpose of this type of insurance is to indemnify the individuals who are not using any insurance products and those who are not able to access insurance products due to their income level making lower

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insurance premiums available for them. The phrase "micro" accounts for the lower amounts of money involved in the premium value and the tightness of the indemnity itself. Product structures are simple when compared to conventional insurance products and most commonly insures a single risk depending on its level of significance.

In this context, microinsurance is an important tool for economic growth and socioeconomic development in developing countries. Differing from conventional insurance practices in its customers, processes, and products with different goals, microinsurance shapes the processes depending on the features of the product. As it is first introduced to a group of people who have no information on the insurance industry and who have never paid for an insurance premium, the processes are created to be simple and cost-efficient when compared to conventional insurance practices. The main goal is to reach at the results with fast operations and minimal amount of decision-makers. The advantage of "law of large numbers" is that microinsurance policies are commonly made available to the customers through a cooperative. Established according to their intended operations, these cooperatives gather individuals with similar needs in order to make the "law of large numbers", a necessity of insurance industry, work for these people.

Another property of microinsurance which diversifies it from conventional insurance products is the frequency of the premium payments. Normally paid monthly at a predefined amount, these premium payments can be customized considering the irregularities in the income of the insured. The underwriting process is simple and does not require financial literacy.

Customer satisfaction is of utmost importance. The most remarkable difference of microinsurance is prevalent in the damage management process. The need for the indemnification is very urgent for the ones insured with microinsurance when compared to ones insured with conventional insurance. Therefore, damage assessment and indemnification processes must be completed as fast as possible with minimal documentation requirement. The data available shows that the need for microinsurance increases or becomes totally void which leads to the insured to step out of the system during the damage indemnity process when the insured has a small income.

Regulations, incentives, and exemptions. Another important factor for the development and widespread use of microinsurance is the regulations and exemptions which cover only this type of an insurance. Elimination or relief of tax obligations applied to conventional insurance products or the financial eligibility ratios which must be met for the insurance company is significant for this type of an insurance. Thus, it will be possible to highlight the social aspect of this insurance product while expanding its domain.

Looking into the practices available in the world, one can see that regulatory bodies in a number of countries made it obligatory to be covered by microinsurance. Thus, government transfers its indemnification responsibility to an insurance company in case of a damage assuring the protection of the social system with insurance. However, aimed at people with small income and commonly considered a social responsibility project for the insurance companies, microinsurance creates a large customer base in the medium term. And this proves the importance and necessity of the continued microinsurance practices.

Microinsurance practices are rarely preferred in Turkey. Yet, recent regional disturbances and resulting immigration expanded the domain of microinsurance as it is the case in countries receiving refugees.

In this context, this section aims to assess the microinsurance system and to evaluate its efficiency in improving the scope of social security system. Therefore, this section addresses the microinsurance concept, the target market for microinsurance, microinsurance providers, microinsurance products and

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