

Report on

**Micro-Insurance Assessment -
Prospects for Papua New Guinea**



Submitted to

UNDP Pacific Centre
Suva, Fiji

Submitted by



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Equity for Equity

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List of Abbreviations

ADB	Asian Development Bank
AIDS	Acquired Immune Deficiency Syndrome
ANZ	The Australia and New Zealand Banking Group Limited
BPNG	Bank of Papua New Guinea
BSP	Bank South Pacific Limited
FGD	Focused Group Discussion
HIV	Human Immunodeficiency Virus
IT	Information Technology
MCC	Microfinance Competency Centre
MFI	Microfinance Institution
MIS	Management Information System
MVIL	Motor Vehicle Insurance Limited
NCD	National Capital District
NGO	Non Governmental Organisation
PIC	Pacific Island Countries
PFIP	Pacific Financial Inclusion Program
PML	Papua New Guinea Microfinance Limited
PNG	Papua New Guinea

Executive Summary

Introduction: Micro-insurance is being considered as one of the options for addressing the vulnerability of the poor and is being experimented world-wide. The successes of micro-insurance, in a limited way, have been observed in matured micro-finance markets, such as in India and Philippines. In the sparsely populated Pacific Island Countries (PIC), micro-finance markets are in its nascent stage and hence the provision of micro-insurance services is negligible in the PICs. Micro-insurance is well recognized as a tool for livelihood security supplementing community and Governmental Support, Pacific Financial Inclusion Program (PFIP) is keen on understanding the scope of micro-insurance in these island countries and help them in achieving the goal of financial inclusion. Towards this, PFIP has commissioned a study of micro-insurance in two large pacific island countries, Fiji and Papua New Guinea.

Methodology: For the study, use of both secondary data on micro-finance and micro-insurance, semi-structured interviews with all insurance regulators, companies, Micro-finance Institutions as well as Focused Group Discussion with MFI clients was done in both the countries.

Study Background: The financial sector in PNG is limited to urban centres in the state capitals, which are business hubs. It caters to only 14 percent of the overall population. The rest of the population resides in rural areas across all islands, which are mostly inaccessible. Poor infrastructure facility is one of the key constraints to development of the financial sector because of the resultant high transaction costs. This is reflected in working of some MFIs which are concentrated mostly in the cities and district towns. Due to subsistence nature of the rural economy, there is also low level of monetization and the general public are not aware of the various choices available for savings and loans. Under these circumstances, providing micro-insurance services is a challenge.

Insurance Market: There are four licensed life insurance companies functioning, namely, Kwila Insurance Corporation Ltd, Life Insurance Corporation (PNG) Ltd, Pacific MMI Insurance Limited, Capital Life Insurance Company Limited, formerly known as Pan Asia Pacific Assurance (PNG) Ltd.

The general insurance industry includes 5 insurers, 6 brokers, 5 loss adjusters and 1 reinsurance company. The insurance companies providing general insurance in PNG include National Teacher Insurance, QBE Insurance (PNG) Limited, American Home Assurance Co, Tower Insurance Limited, Pacific MMI Insurance Ltd, Mitsui Sumitomo Insurance Co Ltd, Motor Vehicle Insurance Limited (MVIL) which is government-owned insurance company providing compulsory third party motor vehicle insurance.

On the demand side, the corporates are major clients of the insurance companies who are mainly serviced by the brokers. Direct agent or retail business is not developed.

Risks faced and perceived by the Population: The perception of risk is quite low among the population due to prevalent wantok system which raises demand on extended family members to support the individuals during the emergencies such as death or hospitalization. Since such strong social support is available, such events are never considered as a risk which otherwise could have been addressed through insurance. This is one of the key reasons for low demand for insurance as a risk mitigating mechanism.

Potential for Micro-Insurance: The potential of micro-insurance is limited to urban or peri-urban centres. In such places, there are concentrations of the salaried and wage employees from the unorganized sector, who are engaged in small business and others with regular cash flows, can avail insurance services. The estimated potential for insurance is close 285,000 which about 10% of the total employed persons. About 80% are engaged in subsistence economy in the rural areas and are therefore outside the ambit of insurance services.

Supply Side Issues: The insurance services are limited to the urban centres mainly due to poor infrastructure, lack of support data and records, poor governance and law and order in remote areas. This calls for a more comprehensive approach to development of the micro-insurance sector in PNG.

Recommendations to PFIP: Given the goal of financial inclusion and need to address the vulnerability faced by people in PNG, the following has been recommended as a roadmap for promotion of micro-insurance in PNG:

- i. Focus on financial literacy: There is need to support local institutions and MFIs for engaging with the community in the peri-urban areas and accessible rural areas on financial literacy through training and exposure visits. There is also a need for creating awareness among the existing insurance service providers for breaking the myth on low efficiency and profitability of small and micro-transactions. PFIP through its network can contribute to spreading insurance literacy in the informal sector and raise awareness levels of the insurance companies in PNG.
- ii. Regular Dialogues with Regulators and insurance companies: This will facilitate formulating policy on micro-insurance in the medium term and help in its implementation. PFIP can facilitate discussions between regulators and companies for promotion of the micro-insurance sector
- iii. Research and Product Development: Efforts would be required to understand the requirements of the clients and then design suitable demand driven products. Technical assistance can be provided to insurance companies to

properly design the pilot product and process and to develop proper evaluation models.

- iv. Support pilot projects in Micro-insurance: This can be done through MFIs or community based institutions in developing appropriate products, supporting collaboration with insurance companies and creation of some common risk pool funds.
- v. Development of database: Through dialogues with re-insurers and various Government departments for development historical data on various key parameters insurance companies look for. This will help in the development of products and processes in delivery of micro-insurance services.

1. Introduction

The growth and initial thrust in micro-finance was primarily in credit and savings in which different products and processes has been experimented world-wide with a reasonable level of success. In the past decade, micro-finance sector has also been looking into provision of micro-insurance services to the poor and thereby addressing partially the vulnerability faced by them. Micro-insurance services have been offered by the MFIs through collaboration with insurance companies in both life and general insurance. Some experiments of community managed insurance services have been tried in various places but its impact and efficacy is yet to be established.

It is also interesting to note that all the major MFIs have worked closely with insurance companies to offer variety of products in life, health, livestock, weather indexed insurance, etc. Although such products have been developed and implemented by various MFIs, the scale and outreach is limited. From the micro-perspective, such products are being offered to through micro-finance products, often through bundling of products. The retail sales of standalone micro-insurance products are hardly noticeable. From the macro-perspective, the penetration of both life and general insurance is quite low in most developing and least developed countries due to various reasons. The upshot is that the access to insurance services by the poor is quite negligible across the world.

The success of micro-insurance products has been observed in matured micro-finance markets, often seen in highly dense population such as in India and Philippines. As the micro-finance market has steadily grown in size, new financial products have been offered to micro-finance clients in such markets. This has been facilitated by higher financial literacy and exposure to financial products and the felt need on the demand side. On the supply side, the MFIs through such product offering have often tend to protect their portfolio against such risks while some of the insurance companies is looking it as a business opportunity in these matured micro-finance markets.

However, the development of the micro-finance sector in the Pacific island countries (PICs) is not as expected mainly due to high transaction cost of serving dispersed population, low income level in rural areas, absence of small and medium enterprises and a high dependence on internal and external remittances. While strictly looking into insurance, the need and understanding of insurance is low in PICs due to strong cultural tradition of communal support and obligation.

Thus there are challenges to development of both micro-finance (savings and credit) and micro-insurance in the PICs. The opportunities for developing micro-finance markets is immense with presence of several leading global financial institutions, developing telecom markets and more receptive financial regulators that are receptive to innovations and efforts to reach low-income and rural households.

PFIP has taken the mandate to achieve an outreach of additional 250,000 households in micro-finance in the Pacific Islands. One of the areas being explored by PFIP is micro-insurance, where very little development and progress has been observed. In order to support new initiatives in micro-insurance, PFIP is investing in understanding the micro-insurance sector in Fiji and PNG, which in turn will help them to devise strategy and action plan in the respective countries and possibly for the region.

2. Methodology

A rapid assessment of the micro-insurance sector was done in both Fiji Islands and Papua New Guinea. The broad methodology followed is outlined below:

- Analysis of secondary literature: This was done to get an understanding of micro-finance sector in general and micro-insurance sector in particular in these two countries.
- Semi-structured Interviews: These interviews were conducted with various stakeholders such as:
 - Insurance Regulators: To understand the current development of the insurance sector and the views on micro-insurance sector and issues
 - Life and General Insurance Companies: This was done to understand their products and outreach, current view of serving low end customers, future growth and strategy and issues confronted by the sector in general. Interviews were done with both life and general insurance companies
 - Micro-finance Institutions and Associations: To understand their current views on micro-insurance, knowledge and current and future strategy of expanding into micro-insurance sector.
 - Training Center: To understand whether there is any course or curriculum on micro insurance designed to build capacity of different stakeholders and to gather information on the financial literacy programs run in the country.
 - Focused Group Discussion (FGDs): FGDs were conducted with MFIs clients in both urban and rural areas. The discussions were mainly focused on understanding their knowledge and felt need for insurance, current coping mechanisms, ability and willingness to pay for micro-insurance services. FGDs were conducted with clients from Papua New Guinea Micro Finance Ltd, Care cooperative, Ambumangre credit scheme and Alekano Loans and Savings Society

Analysis of the data and the ensuing report focused on giving a snapshot of the current situation for overall insurance and micro-insurance sector, current regulation and support for development of micro-insurance sector, role played by the various stakeholders, present constraints and opportunities. The report also captures the potential demand for such micro-insurance and also consumer preferences. Finally,

the report also focuses on the role that can be played by PFIP to propel the micro-insurance sector in the Pacific Islands.

3. Background

3.1 Country profile:

Papua New Guinea (PNG) is one of the biggest states in Oceania region consisting of eastern half of the island of New Guinea and numerous islands in the Pacific Ocean and vicinity. The state of PNG is made up of 600 islands with a total area is 462,840 square kilometre. Other major islands within PNG include New Ireland, New Britain, Manus and Bougainville.

The terrain of PNG is diverse with a mountainous highland region in the island of New Guinea whereas there are dense rainforests in the lowland and coastal areas. Given the dispersed islands and the rugged terrain, development of transportation infrastructure has become one of the critical challenges with several areas difficult to access. People come to towns mostly by walk or sporadic transportation facility. The communication between islands is mostly by air or water.

3.2 Demography

It is one of the most heterogeneous countries with large socio-cultural differences between and within provinces. There are about 850 indigenous languages spoken by the community in PNG reflecting the cultural diversity. English, Tok Pisin (Pidgin), and Motu (the lingua franca of the Papuan region) are the official languages. The total population is around 6.5 million of which 40% is under the age of 15. The country is pre-dominantly rural with only 18 per cent of its population living in urban centres.

3.3 Current social political scenario

There is a parliamentary democracy in place primarily based on the Westminster model. It is a member of the Commonwealth and Queen Elizabeth II of the United Kingdom of Great Britain and Northern Ireland is recognised as the head of the Independent State of Papua New Guinea. However, the state is run under the stewardship of Governor-General, who is elected by the National Parliament for a five-year term. Elections are held every five years for two tiers of Government, at national and local level. There is a decentralized system of governance with three levels of administration: provincial, district and local (including several communes with their villages).

3.4 Poverty

There is no recent estimate of poverty figures in Papua New Guinea. According to the Business for Millennium Development country profiles, the poverty percentage is about 37% as per the estimate of National Institute of Statistics of Papua New

Guinea in 2004. No recent data on official figures is available for poverty. This is mostly due to dependence of the rural population on subsistence farming and further accentuated by poor soil quality and weather vagaries. Many people in rural places still live beyond the cash economy. Mineral, hardwood, and oil/gas extraction are major sectors in the economy but majority of the population is outside the ambit of these sectors. This is reflected in formal employment where only 2% of the PNG adults are engaged. Poor in villages migrate to major towns in search of decent employment and livelihood but end up in begging or getting involved in criminal activities.

3.5 Current health indicators

PNG still has limited primary health care facilities (0.05 physician/1000 persons). PNG has the highest incidence of HIV and AIDS in the Pacific region and fit the criteria for a generalised HIV/AIDS epidemic. According to an AusAID report, about 64,000 HIV infected persons in PNG is existing although the official statistics is 0.6% of the total population. Lack of HIV/AIDS awareness is a major problem, especially in rural areas.

In Papua New Guinea, delivery of health services is a challenging task due to dispersed population, rugged terrain and poor communication facility in several parts of the islands. According to WHO, a thousand nurses are required to service and in some provinces (and many districts), there are no doctors. The present health staff has a low morale, because of isolation and lack of support from the Government in form of housing and other allowances in the remote areas.

3.6 Financial Markets in PNG

The Bank of Papua New Guinea (BPNG) which was established under the Central Banking Act 2000 as an independent agency with defined statutory roles regulates commercial banks, finance companies, merchant banks, savings and loan societies, superannuation funds, life insurance companies and other licensed institutions in PNG. The general insurance industry is regulated by the Insurance Commissionaire.

Banking and credit

There are four commercial banks in the PNG namely Bank South Pacific Limited (BSP), Australia and New Zealand Banking Group (PNG) Ltd, Westpac Bank (PNG) Limited and Maybank (PNG) Limited. The largest of these is BSP which has around 40 branches throughout PNG. ANZ and Westpac, subsidiaries of Australian banks, operate some 9 and 15 branches respectively in PNG. Maybank, a subsidiary of a Malaysian bank, has two branches in PNG.

From a peak of 478 branches, sub-branches and agencies in 1980, the network of commercial banks' branches, sub-branches and agencies had declined to 164 by 1997. The commercial banks, since then have concentrated on the development of electronic delivery channels, which is not so popular among grass root Papua New

Guineans. The branches operate mainly in Port Moresby and other provincial and district towns leaving rest of the country untapped by the banking sector. Hence the economy in these interior parts of the country is under-monetized. Much of the required financial services for households and economic enterprises come from informal sources.

There are 10 other specialized licensed financial institutions which include two specialized micro finance bank, namely PNG Micro finance Ltd and Nationwide Micro Finance Bank. There were over 100 microfinance institutions formed under the PNG-ADB Microfinance and Employment project. However the Project Completion Report in 2008 indicates that there are less than 30 active MFIs, of which only 10 MFIs which are operationally self-sufficient.

They are also 21 registered Savings and Loan societies operating in the country which are largely professional based such as Teachers society, Police society, etc and cater again mostly to the people engaged in the formal sector living mostly in urban centers. Hence it is likely that many members in the society may also hold an account with a commercial bank. Out of the total 21 registered societies, only 5 registered societies work with the informal sector which includes farmers, vendors, public motor vehicle operators etc.

Remittances are made by government and the corporate to their employees working across the country. Most of these remittances happen through bank networks or through the postal network. In most of the domestic remittances, transfer happens through trusted friends and relative or through post office transfer service.

Insurance Companies

There are four licensed life insurance companies Kwila Insurance Corporation Ltd, Life Insurance Corporation (PNG) Ltd, Pacific MMI Insurance Limited, and Capital Life Insurance Company Limited, formerly known as Pan Asia Pacific Assurance (PNG) Ltd.

The general insurance industry includes 5 insurers, 6 brokers, 5 loss adjusters and 1 reinsurance company. The insurance companies providing general insurance in PNG include QBE Insurance (PNG) Limited, American Home Assurance Co, Tower Insurance Limited, Pacific MMI Insurance Ltd, Mitsui Sumitomo Insurance Co Ltd, Motor Vehicle Insurance Limited (MVIL) which is government-owned insurance company providing compulsory third party motor vehicle insurance.

Superannuation

There are 7 licensed superannuation funds in PNG managed and administered by 3 investment managers and 4 fund administrators.

The total sector has serviced less than 10% of the total population. However this rate is expected to improve with the introduction of new technology in PNG (example:

mobile banking by BSP and Digicel). The concept of mobile banking and agent banking are being reviewed for their applicability in rural areas.

4. Overview of Insurance Sector

4.1 Legal and regulatory

Unlike many other insurance markets where there is a single regulator, the market of Papua New Guinea is regulated by two bodies.

- Regulation of life insurance by the BPNG is done under the Life Insurance Act 2000.
- Regulation of general insurance is done by the Insurance Commissioner under the Insurance Act 1995.

Apart from the regulatory role both the bodies play, supervisory services are one of their important functions. Supervision of the regulators is limited only to the extent of monitoring the capital adequacy and solvency margins.

Currently, any disputes between the Insured and the Insurer in an insurance contract are addressed through the Common Law in PNG. The regulators are now in the process of enacting a new law called the Insurance Contracts Act which would clearly outline clauses for consumer protection in insurance contracts. According to the current regulations insurance companies have to take separate licenses for conducting life and non-life business.

The country does not have specific micro insurance regulations. There is no act or policy at present in PNG on financial inclusion but however BPNG is a member of the National Informal Economy Policy Committee formed by department for community development which is in the process of documenting suitable policies on financial inclusion. However, even if BPNG comes out with a policy on financial inclusion, micro insurance as of now may not be within its purview. Moreover BPNG only supervises life insurance business in PNG and any policy level decision on general insurance business would have to be taken by the Insurance commissioner.

4.2 Social safety net overview

All employees working in a firm which employs more than 20 workers are covered under the mandatory social security superannuation scheme. However, short term contractual casual workers, domestic servants and self-employed are excluded from this cover. The cover provides benefits on retirement, disability and death during the course of employment. Apart from the superannuation scheme, all employees including domestic servant are covered under workers compensation scheme for travel to and fro from work. This is an employer liability system and involves compulsory insurance of employees with private insurer.

4.3 Insurance providers and outreach

The industry comprises of 5 life insurance companies, 7 general insurance companies, 5 loss adjusters, 6 brokers and 1 reinsurance company.

The following companies offer life insurance in PNG:

- Kwila Insurance Corporation Ltd
- Life Insurance Corporation (PNG) Ltd
- Workers Mutual Insurance (PNG) Ltd
- Pacific MMI Insurance Limited
- Capital Life Insurance Company Limited, formerly Pan Asia Pacific Assurance (PNG) Ltd.

The insurance companies providing general insurance in PNG include

- QBE Insurance (PNG) Limited
- American Home Assurance Co
- Tower Insurance Limited
- Pacific MMI Insurance Ltd
- National Teachers Insurance Limited
- Mitsui Sumitomo Insurance Co Ltd
- Motor Vehicle Insurance Limited (MVIL) - Government-owned which provides compulsory third party motor vehicle insurance.

The non life insurance sector in PNG is constituted by a relatively small group of companies. The market share of the largest company is 35% with another four firms comprising approximately 22% of market share. All of these companies have their offices but management and technical support is given from their respective Head Offices in Australia. The remainder of the market is represented by two locally owned companies.

5. Major risks facing low income households

Papua New Guinea is often threatened with natural and environmental hazards and the poor are not equipped to handle such catastrophe and have got immune to such events. In addition to these, some of the other risks faced by the inhabitants of PNG are highlighted below:

5.1 Death/permanent injury

Traditionally the funeral of the dead in Papua New Guinea is performed in their own village and leads to high expenses, mainly arising out of transportation expenses from cities to villages. It sometime requires transportation by air. Such expenses are mostly met through pooling by the community, commonly known as Wantok system. Moreover, the kith and kin of the deceased are looked by the close relatives. Hence, the perceived risk of death as seen in other economies and common consequences of vulnerability was not highlighted in the discussion. In the discussions with some NGO and Government officials, it was quite evident that such risks were not even thought about in the recent past as they believe and practice the Wantok system of living and helping each other.

People living in urban areas are not fully protected under the Wantok system as they live away from their community. However community support is still available through the 'Haus Cries' conducted during funeral at one's own village. However due to absence of road and rail transport, transferring the deceased to their village for funeral attracts huge cost. It may sometime involve in engaging a chartered flight to fly the body to nearest city in island where the village is located. This attracts huge transportation cost followed by other expenses which have to be incurred as a ritual. Moreover the family of the deceased may find it difficult to continue to live in urban areas after his/ her demise.

Even after such high costs, the associated risks with death are not recognised by the people as they have their own social mechanisms to meet such exigencies.

5.2 Health

Despite high incidence of HIV and water borne (o, hepatitis, typhoid fever) and vector borne (malaria, dengue) diseases, health care was never given priority. However the Government is investing in promoting health care both in urban and rural areas and the people have started to realize the importance of quality health care and are willing to spend on it. However the value of health insurance is undermined due to lack of access to health care. On the other hand, people living in urban areas do avail health care facility and cost is often met through wantok system or even through borrowing.

5.3 Theft and Vandalism

Crime in PNG is frequent and brutal in nature, e.g. 48% of the total crimes in Port Moresby involve high violence while the rate of crimes involving high violence in rural areas is around 25 to 30 percent. Several incidents involving citizen residents and visitors being victims of a violent crime have been reported in recent years, and they have sometimes suffered severe injuries.

People in PNG are afraid to carry cash or valuables with them and it is also not safe for them to keep it at home. In absence of banking facilities in close vicinity they travel long distances to save their money in banks. From the discussion with MF clients, one of the key issues highlighted was pilferage of money during travel in public transport or on the roads.

5.4 Unemployment

The estimated figure of unemployment is about 1.9% and therefore is not considered as a major issue. Unemployment in urban areas is a bigger issue. Moreover, the rural economy is mostly subsistence in nature and is an integral part of their existence where the measure of employment, un/underemployment is not considered critically. Thus, it was never raised as a factor during the discussion and people do not comprehend the same.

5.5 Property

Apart from the risk to the property from theft and vandalism as discussed above, the property is also affected by the risk from tribal wars. When two clans have some differences among themselves, it can lead to violent demonstration of power and can also result in loss of dwelling due to fire and arson. These were not elicited by the indigenous people but by the insurers. In addition, there are risks of theft in major cities. Again such acts were elicited by the insurer, which often acts as a deterrent towards property risks. But the common people do comprehend it as a major event which might have economic consequences.

5.6 Disaster/weather

PNG has experienced a total of 26 droughts since 1880 out of which 18 were due to El-Nino effect. About 85% of the population is rural and mostly poorest people living in rural areas survive on agriculture cultivation on unproductive land (covering three-quarters of the country). In remote and isolated areas, people are aware of the consequences of such inclement weather but treat it as a way of life. As most of them are engaged in subsistence farming, food insecurity is a striking feature of poverty. As products to address such risks are not available, people do not have knowledge about the same.

6. Overview and Analysis of current coping mechanisms and prioritization of risk

Despite low understanding of risks and its mitigation, there are some inherent mechanisms adopted for coping with various hazards at individual and societal level. These are highlighted below:

6.1 Individual/family

Savings: Poor people in urban areas save directly in bank and others who do not have access to banks or those living in rural areas use the network of micro finance banks or channels of other micro finance programs run by PNG Banking Corporation (earlier Rural Development Bank) for saving. In addition, there are informal groups such as Savings and Loan societies, Church run Credit and Savings Schemes, Liklik Dinua (an NGO formed by collaboration of 7 parties) and other informal savings groups like WOK MERI (Women Business) and Sundae (Sunday) mostly found near urban areas. During unforeseen circumstances, people withdraw money from their savings accounts.

Layby schemes: This is an interesting system of savings cum health care financing noticed in urban areas of PNG. These schemes are run by private clinics operating in urban areas, which collect small amount from their customers as deposits which can be used against future treatments. The customer can also use his deposited amount as a payment against treatment of other person. This amount is extended as a loan by the customer to the treated person generally on interest.

Loans: In absence of savings, loan acts as a next coping mechanism. In PNG, major sources of informal credit are the extended family or clan (wantoks) and rural trade-store owners. Informal group like Wok meri groups serving rural women who pool funds for on-lending, often with a small interest, and Sundaes often involving working women who meet regularly and contribute an equal amount each for rotation are the next best sources. In urban areas where people are away from their traditional social safety net, they land up taking emergency loans at very high interest rates. Semi-professional moneylenders act as credit source in urban areas, who charge up to 30–40 per cent per fortnight on short-term loans.

Remittances: Unable to cope with unmanaged risks rural people in desperation migrate to urban areas in search of an alternative and decent livelihood. This is one way of diversifying the household activity. In event of distress the urban counterpart remit money to their relatives living in the villages.

Extreme Coping Mechanism: A risk event can drain all the productive assets of a family and can lead him to the poverty cycle. When people meet with any of the risk mentioned above and in absence of proper risk management find it difficult to meet both ends meet, they can forage food habits, can indulge in begging or may choose

to take the violent route of crime for earning a fast buck. Young people join organized gangs and involve in carjacking, pick pocketing and other similar crimes.

6.2 Community

'WANTOK' is the spirit of oneness within one's own tribe or clan. A wantok is literally someone who speaks your language. When the head of the family dies, the wantoks supports the family until the family is capable of functioning again smoothly. If any children are left as orphans, the wantoks would adopt them. Widows are again remarried within the community. This acts like a traditional informal social safety net wherein the community provides every possible support by sharing money, food, housing and other resources.

This system of WANTOK limits the sense of sharing within people speaking the same language and hence the effectiveness of WANTOK weakens in the urban areas. This was also corroborated from the opinion of urban dwellers who opined that there is limit to support such known people due to high cost of living and other incidental expenses.

6.3 Informal

Early in late 1990's a few Savings & Loan Societies had developed their own life and medical insurance products and offered it their customers. Later in 2000, this was discontinued after a directive from Bank of Papua New Guinea. Most of these societies now act as agents to the insurance companies such as the unions of teachers acting as agents for Life Insurance Corporation (PNG) Ltd.

6.4 Governmental/External Assistance

Health assistance in PNG is offered by the Government of PNG. Australia also supports the work of other development partners in PNG, including the Global Fund to fight AIDS, Tuberculosis and Malaria. The World Health Organization and the Asian Development Bank do also invest in support programs.

Relief in disaster is offered by international agencies like Red Cross and Red Crescent and from international support with active participation from countries like Australia and New Zealand

7. Attitudes toward Insurance

7.1 Understanding

People in Papua New Guinea have a very limited understanding about insurance. Under the strong informal social safety net provided by the Wantok community together with non-monetized rural economy and low education levels, the poor do not understand the concept of risk and its mitigation through insurance.

7.2 Appetite for Risk

Lack of proper financial services and the ensuing low financial literacy is the major reason for poor understanding of the risks. Earlier to the introduction of financial services, the concept of provisioning for future did not exist in PNG. Long queue in the micro finance banks for saving diminutive amounts is evident of the development of the concept of savings within the poor community. The poor today want to convert their small savings to a decent amount which can cater to their requirement of old age, illness and accidents.

7.3 Trust in products

The poor clients who could be served through micro-insurance are unaware of any financial products covering their risks and hence the consequent trust for the services provided through insurance does not arise. The clients of MFI's, Cooperatives, Societies, Church run schemes or retail chains however believe in services offered by the respective institutions and through them insurance products can be distributed.

7.4 Potential for Micro-insurance

		Have Now	Market Can Reach Now	Market Can Reach Future	Beyond the reach of the market
Salary	520,531	20%	40%	50%	50%
Wage	243,852	0%	0%	10%	90%
Subsistence Wage	1,580,351	0%	0%	0%	100%
Total Employed	2344734	104106	208212	284651	2060083

The assumptions of insurance reaching the different categories of employed classes are given in the above table. It is estimated that about 104,000 policies are in vogue and with some effort in product design and distribution, the figure can be doubled. The market can reach in future 2,85,000 provided new products and distribution method is in place. Given the terrain and infrastructure, about 20,00,000 of the employed class will remain outside the ambit of insurance services.

8. Conclusions about Demand

8.1 Acceptance

Almost all of participants in the focused group identified death of the bread earner and financial outflow due to accident and illness as the biggest risk, followed by vandalism and theft. In rural areas, the risk to assets due to malicious damage also clearly came out.

In the focused group discussion conducted with people living in peri-urban areas of Port Moresby, Lae and Goroka, it was evident that most of the people both in the lower and middle income group are unaware about insurance as a financial product. They still depend on the Wantok system to cover the various risks highlighted above.

Most of the low/ middle income households in rural areas had never used formal financial services including savings and credit and hence it was difficult for them to understand the concept of risk and insurance as a risk mitigation tool. They completely depend on the Wantok system but also realize that the system is weakening.

However people interviewed in Port Moresby expressed their desire for products covering risk of death and also expressed their interest in health insurance products. However people in rural areas do not see any value in health insurance due to lack of access to quality health care.

It is important that financial literacy programs precede the launch of micro insurance product. Clients need to be explained about the importance of insurance through properly designed financial literacy programs. Market education is necessary to create a receptive market for micro insurance.

8.2 Ability/Willingness to Pay

The culture of savings and credit is not very strong among the rural poor. Consequently, their knowledge about insurance was vague and hence the willingness to pay for it could not be ascertained. However the focused group indicated that they desire to have insurance and are willing to pay for it. Most of them indicated that they were willing to pay 30 Kina to 50 Kina per annum for life insurance policies.

9. Insurance Regulatory Framework

The current insurance regulatory framework does not stipulate for micro insurance services. The prudential guidelines for the insurance companies prohibit any institution other than the insurance company to underwrite risk. The myth that offering low premium products are unprofitable keeps the profitable formal insurance company away from the market. On the other side as poor are not aware of insurance, they may exhibit distrust for the product and the service provider. This calls for innovation in product and service delivery. While PNG has an efficient framework through which the insurance industry is regulated, for micro insurance to take off, it shall need to provide space for innovations.

Micro insurance regulations can play a great role by ensuring innovation, investment, development and stability of the micro insurance market. It should take an overriding role in the development of the market by collaborating with insurance companies. While it does so it should continue to improve market efficiency, and protect the consumer interest.

10. Analysis of current products

10.1 Design

The current range of products for life and general insurance is suited for urban corporate clients. During the survey only two insurance schemes, designed to include low income households in PNG were identified. The following are the features:

Name of the Scheme	NCD Haus Krai Plan		Paradise Funeral Plan		City Pharmacy Life Insurance	
Type of Product	Funeral Insurance		Funeral Insurance		Life Insurance	
Area Sold	Only in NCD		Across PNG (except NCD)		Across PNG through retail outlets of City Pharmacy	
Name of the Insurer	Life Insurance Corporation		Life Insurance Corporation		Pacific MMI Life Insurance Company	
Intermediary	Office of the NCD governor				City Pharmacy Limited	
Target Client	Members working in informal sector in NCD		No defined criteria		Customers under loyalty program under City Pharmacy	
Coverage Details	S.I Limit	Category	S.I Limit	Category	S.I Limit	Category
	K 5000	Age 18-55	K 5000	Age 18-55	K 5000/ K10,000/ K 20,000	Age 18- 15
	K2000	Age 56-60	K2000	Age 56-60		
	K2000	Age 18-60 (with pre-existing disease)	K2000	Age 18-60 (with pre-existing disease)		
K1000	Age 61-70	K1000	Age 61-70			
Premium	K 30 to be paid by proposer and equal contribution to be paid by governor of NCD for the first 3333 members		K 60 to be paid by proposer		K 75 p.a for K5000 S.I K 125 p.a for K10000 S.I K 200 p.a for K20000 S.I	

Note: K in above table refers to Kina

The schemes were not successful after the initial launch and both the providers explained that the cause for low response is the lack of understanding about insurance as a risk mitigation service. They opined that apart from developing suitable products, investment on insurance education of prospective clients is required to develop a more receptive market for such products. However both the providers have limitations of investing in financial literacy.

10.2 Distribution

The distribution of insurance in PNG is managed mainly through brokerage and some of the retail sales are done through the agents. The corporate insurance policies or deals are done by the brokerage firms or the insurance companies directly get into institutional arrangements for distribution of their policies to the members of the clients. The only Institutional tie-up for provision of micro-insurance witnessed during the study were

- a. City Pharmacy Limited providing life insurance to its clients.
- b. Life Insurance Company (PNG) Ltd offering funeral insurance through the governors' office

Few micro finance services providers interviewed are keen to introduce micro insurance services. Smaller organization like Care cooperative, Ambumangre credit scheme and Alekano Loans and Savings Society are interested to know more and require support to build up their capacities so that they can initiate micro insurance operations over the next few years. However, PNG Micro Finance Limited is seriously considering initiating micro insurance operations starting with life insurance for its savings and loan customers in collaboration with some insurance companies and over the years build internal capacities to act as a distribution channel for the retail insurance products of insurance companies. However all of them seek support to educate their customers.

BASIX currently has been working with PML for the last three years and have been supporting PML in its operations and management systems and IT based MIS. One of the support given is rolling out of micro-insurance product linked with savings and credit. A proposal for introduction of micro insurance by PML has been approved by the Board.

PML is planning to initiate micro insurance operations with credit linked product in the first year and later design savings linked policy. Over a period of three years it wishes to mature as a retail insurance distribution channel for insurance companies.

10.3 Affordability/Cost

When insuring the poor, affordability is a real issue. Due to scarce resources and competing demands on the same, the poor often tend to give less priority to uncertain products or investments in which the existing knowledge is low. This is true for PNG also. The small clients are not aware of insurance products and hence could not give any opinion about their ability to pay.

10.4 Market Development through education

None of the insurance companies or any other institution in PNG has made any investment/ effort to educate the low income clients about the importance of insurance. The only trace of any financial education/literacy program is the project supported by ADB. It is supporting Micro finance Competency Center (MCC) in PNG in providing financial literacy program to people living in rural area, through the staff of community organization and informal MFI's who are trained by MCC. The current financial literacy module however does not include risk mitigation and micro insurance component. MCC realizes the importance of insurance for the poor and is interested to incorporate modules related to risk mitigation and micro insurance into their curriculum.

11. Conclusions on supply

11.1 Gap Analysis

The insurance market in Papua New Guinea is limited to the populace working in the formal sector. Insurance companies have concentrated their operations around NCD and other major towns. The following are the gaps identified

- i. **Accessibility:** Access to customers is the biggest concern for the private sector including insurance. The conditions of almost all roads are dismal with 85% of the roads impossible to traverse for some time of the year. The nearest national road for about 35% of the population in PNG is about 10 kms away and about 17% of population does not have access to any road.

Electricity has reached to only about 10% of the population, which affects functioning of even important basic infrastructures like health centers, schools, etc. However access to telecommunication has improved in the last few years with entry of private service providers.

- ii. **Limited Interest of Insurance Companies:** The insurance market in Papua New Guinea is limited to the urban populace working in the formal sector mainly the salaried class. Insurance companies in PNG have concentrated their operations mainly in National Capital District and few other major towns. Insurance companies have done very little to design and market products which are suitable for low income households. In areas even where micro finance operations have flourished, there is no trace of micro insurance schemes.
- iii. **Poor Support services:** The interest of the insurance companies is also hindered by the lack of availability of support services in PNG. There are no proper births and death records maintained in PNG. The poorly managed hospital in PNG make administration of health insurance program difficult

and in case of life insurance makes the assessment of cause of death a problem for final settlement.

Health infrastructure is very poor in PNG with only 1.2 doctors per 1000 people (http://www.adi.org.au/index.php?topic_id=100) with most of them practicing in Port Moresby. The medical centers in rural areas are ill equipped, lack appropriately trained health workers with low competency skills. In addition, there is also shortage of basic medicines in rural health centres. However the government also works closely with private institutions in providing health services. In many places they government has tied up with church based NGO's which provide health services. The gap in health infrastructure is high and hence provision of health insurance in rural areas is not a priority for insurance companies.

The government is formulating a Public Private Partnership plan for improving the state of the health services. It is also contemplating on plans for provision of health insurance services in participation of the private sector. It is the onus of the government to improve the health facilities both in urban and rural areas.

- iv. **Low capacities of Intermediaries:** Similar to their customers, the potential intermediaries also have limited understanding and information on micro insurance. There seemed to be very low understanding on the benefits of micro insurance among both clients and staff.

Most of them expressed desire to know more about micro insurance and hence require significant capacity building through which they would be able to understand, market and manage micro insurance operations.

Most of the insurance companies expressed their willingness to design insurance products for the low income clients provided they have a strong channel partners. However they were unwilling to make investment in building awareness in rural areas.

Capacities of all the stakeholders have to be built up through proper training and consultation. The capacities of the intermediaries have to be improved to help them understand

11.2 Opportunities

PNG has a vibrant and competitive insurance industry but has limited its reach to the National Capital District and few other major towns. The urban formal sector market for insurance has saturated and there is stiff competition between insurance companies which operate at very thin margins. The informal sector presents growth opportunities for them provided suitable products and processes are developed by the insurance companies.

- i. Collaborations with micro-finance institutions working in remote areas for distribution and servicing of policies can be seen as an opportunity by the insurance companies. In rural areas where formal financial institutions have not been able to reach, informal institutions such as the church based organizations/ cooperatives are also fulfilling the financial requirements of their members by running savings and credit schemes. These institutions provide an opportunity to extend insurance to their clientele. However these organizations currently have very small outreach and lack capacities to handle micro insurance operations, but they have a potential to grow large in the coming years. Collaboration with the Association of Micro Finance of PNG will help to reach out many MFI's together. The association currently has 21 members which includes a Micro finance Bank, Cooperatives, Community based organizations and other support institutions working in different provinces.
- ii. Under various development programs, the marginal farmers are being advised to take up commercial farming (Oil Palm, Cocoa and Coconut in coastal areas whereas crops like spices and coffee in high lands). Commercial crop associations like Palm Oil Growers association and Cotton Industries Corporation are working closely with farmers and trying to influence them to invest in commercial crops. Some of these associations are also working closely with financial institutions to provide financial support to the farmers. These associations can be used as intermediaries to provide micro insurance products bundled with other agricultural inputs.
- iii. Retail micro insurance distribution centers can also be planned in coordination with other retail distribution chains (Example: Initiative of City Pharmacy with Pacific MMI insurance company)
- iv. Another area of interest for the insurance companies is to collaborate with post offices and telecom service provider where the later can also take up the role of agents of the insurance company.
- v. Telecommunications infrastructure is improving evident from increased penetration both in terms of absolute subscribers as well as geographic outreach. This enhanced technology which will allow the development of new delivery channels for communication, marketing, sales and servicing for the insurance companies.

11.3 Constraints

Lack of strong intermediaries: The possible intermediaries lack capacities in micro insurance due to lack of understanding of the concept. There is no training available on micro insurance in PNG and there is need to develop proper training materials and systems on Micro Insurance.

Lack of receptive market: Lack of education and no exposure to financial services is a serious challenge which financial institutions including insurers face. It is estimated that around 42% males and 50% females do not have any kind of formal education. Financial literacy campaigns are being conducted to promote basic services like savings and credit, but these programs do not cover micro insurance.

Poor Infrastructure: The topography of PNG and the lack of road transportation make the distribution of products and services difficult to people living in distant areas. The only way by which few places can be reached is either through boats or by air. Infrastructure for micro insurance is absent while other infrastructure facilities like electricity and internet also pose operational issues.

Lack of credible data: Lack of data on births and death, the high prevalence of AIDS and other chronic diseases due to absence of proper medical facilities in PNG are some key bottlenecks encountered by insurance companies, which makes it unattractive for them as a business proposition. Availability of such information will help the insurance companies to develop better products and offer attractive and affordable price to low end customers. In absence of proper and accurate data, the re-insurance companies also abstain from providing cover for such policies.

Poor law and Order: Lack of law and order, required to ensure security over assets and employees make rural markets unattractive for the private sector. Poor law and order in PNG has been cited as a major constraint for the development of the private sector including insurance.

Lack of support Facility: There are difficulties in getting a reliable age proof, death certificate, cause of death, identification of the nominee in case of polygamy. These are some other operational issues areas which insurance companies face in PNG.

Lack of access to quality health care in rural areas makes provision of health insurance meaningless. The poor administration of health centers also makes administration of health insurance difficult.

12. Recommendations to PFIP

Given the above constraints, especially those of poor infrastructure and subsistence economy in the rural areas, the following can be done to promote financial inclusion in Papua New Guinea. These are enumerated below:

- i. **Focus on financial literacy:** Support can be extended to local institutions and MFIs for engaging with the community in the peri-urban areas and accessible rural areas on various aspects of financial transactions and its usefulness. PFIP may support institutions such as Micro Finance Competency Center to run financial education programs through its member organizations or may directly support other organization willing to conduct such programs for their clients.

Financial education can also be done by education campaigns through mass communication systems like newspapers, journals radio and televisions which may need significant involvement and investments. Such investments currently are not expected from an insurance company or intermediary and hence PFIP can also support such initiatives.

There is also a need to educate the insurance service providers for breaking the myth on low efficiency and profitability of small and micro-transactions. PFIP through its network can support such initiative in PNG.

- ii. **Training:** It is important to build capacities of all parties engaged in micro insurance through extensive and continuous training on various aspects of micro insurance. In addition, there is also a need for educating the Insurance companies, MFIs and local institutions on micro-insurance, possibly with exposure visits to successful programs in other countries.

There are no micro insurance training institutes in PNG. Hence there is a need to develop training modules, trainers, systems and procedures in the country. PFIP should invest in development and implementation of suitable curriculum for different stakeholders. Going forward, capacity of local institutions like Micro Finance Competency Center can be developed so that they can play an important role in designing and implementation of micro insurance training programs.

- iii. **Research and Product Development:** Efforts would be required to understand the requirements of the clients and then design suitable demand driven products. Technical assistance can be provided to insurance companies to properly design the pilot product and process and to develop proper evaluation models.

- iv. **Support pilot projects in Micro-insurance:** This can be done through MFIs, retail stores or community based institutions in developing appropriate products, facilitating collaboration with insurance companies and supporting the initial investments in such initiatives. Support in terms of developing a software system to assist information flow from the intermediary to the insurance company would be required. Such investments and its success can help in scaling the micro-insurance sector in PNG. Some of the following models can be experimented in PNG in collaboration with organizations, working in the field.

Model	Comments
Partner-agent model—here the insurance company bears the risks and the people’s organization/NGO acts as an agent, collecting premium, linking with the insurance company and even processing and servicing claims.	Organization like micro finance banks like PML and other micro finance schemes can be supported.
Full service model- here the scheme is in charge of everything; both the design and delivery of products to the clients, working with external healthcare providers to provide the services.	There is no such initiative observed in PNG. Given the low awareness level and low capacity of service providers, the model may not be suitable in the near future
Provider model—here a service provider develops and runs its own microinsurance scheme, usually for health insurance.	Pacific hospital is one of the successful private health service providers in Port Moresby. It has a potential to design its own insurance scheme and offer it to its customers
Community-based insurance: here a member-based organization manages an insurance scheme and carries the risk.	Churches in PNG are providing credit services to low income households, and their clients have full faith on them. These organizations have a huge potential to educate its members and offer insurance to them.

Some support in rolling out would be required and PFIP can have further discussions on the various aspects of the support.

- v. **Regular Dialogues with Regulators and insurance companies:** This is required for formulating policy on micro-insurance in the medium term and help in its implementation. The apex bank of PNG is considering designing and implementing a financial inclusion policy. PFIP can facilitate discussions between regulators and companies on various issues confronting the micro-insurance sector and build effective policies for the same which may become the part of the proposed financial inclusion policy. This in the medium term will help in development of the sector. Towards this, experts from other countries can be roped in for a more meaningful dialogue.

- vi. **Development of database:** Through dialogues with re-insurers and various Government departments for development of historical data on various key parameters that insurance companies look for. This will help in a long way to develop products and processes in delivery of micro-insurance services.

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