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Report

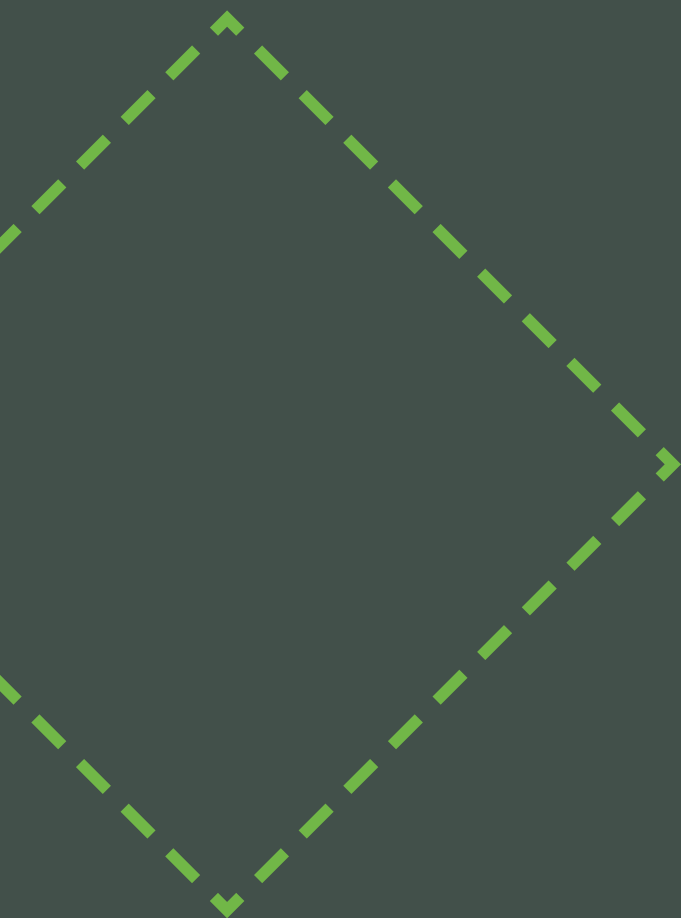
# Microinsurance Conference 2006

## Making insurance work for Africa

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Cape Town, South Africa  
21–23 November 2006

Edited by  
Dirk Reinhard and Zahid Qureshi



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## Acknowledgements

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This report is a summary of the Microinsurance Conference 2006 held in Cape Town, South Africa, jointly hosted by the CAGP Working Group on Microinsurance and the Munich Re Foundation with the support of FinMark Trust. The conference would not have been possible without the contributions, time and efforts of the 38 speakers. Thanks to their input, we had a broad range and variety of experience and important lessons to share. Their feedback on the conference report after the event was also very much appreciated.

This event was aimed at discussing current practices as well as future concepts for microinsurance. It provided a platform enabling the exchange of ideas and solutions for the many problems to be solved. Without the input from the participants, however, it would have remained an empty space. We would therefore like to acknowledge the over 150 participating experts representing 80 organisations from 30 different countries around the world.

On behalf of the organisers, we would like to thank the people actively involved in shaping the conference, identifying suitable speakers, and structuring the workshops: Véronique Faber, Brigitte Klein, Jeremy Leach, Thomas Loster, Michael McCord and Gaby Ramm. We would also like to thank Andreas Kleiner and George Allen from Munich Re of Africa for their guidance on key players in the market, and for helping us find such a great conference venue.

There were a lot of people working behind the scenes. Prior to and during the event, the conference team Angelika Boos, Petra Hinteramskogler, Ursula Forstner and Markus Heigl provided significant organisational support and worked with a lot of passion to make this a successful event. Last but not least, we would like to thank the team of rapporteurs led by Zahid Qureshi – Marco Gerhardt, Ailsa Holloway, Leigh Sonn, Koko Warner and Gina Ziervogel – for helping us gather and document all the important lessons learned from the various sessions, which can be found in this report.

**Craig Churchill**  
**Dirk Reinhard**

## Opening address

Jeremy Leach  
FinMark Trust,  
South Africa

Among the poor in Africa, use of mobile phones is high, and airtime is being accepted as currency. The question is whether insurers could use it to collect premiums.

Regulation lacks enforcement. Policy makers need to harmonise approaches and facilitate the growth of regional players.



Access to financial services clearly matters. Whether the providers are formal or informal, poor households are active users of financial services and yet their choices are often sub-optimal, costly and high-risk. Further, research has shown that access to financial services is a social and political priority – in that exclusion can create social instability – and an economic priority, with greater financial sector development stimulating increased economic growth.

However, research also shows that the financial sector in Africa is the smallest in the world, which is a problem in terms of economies of scale, infrastructure and efficiency. Further, the roll-out of the FinScope Africa surveys demonstrates that the lower-income market has little access to formal financial services for the management of risks, restricting them to informal mechanisms.

Nevertheless, it is not all bad. Global studies show that life and non-life insurance are growing at a good rate in emerging economies, including Africa. With surveys such as FinScope and Financial Diaries demonstrating the high propensity for poor households to actively manage their finances, the challenge will now be to ensure that the coverage reaches deep into the low-income market and meets the real risks. For example, the Financial Diaries project in South Africa showed how poor households manage risks. 55% of one poor household's income was placed into formal and informal savings and insurance products. This example, one of many, certainly points to the potential size of the market and how poor households already manage risk.

In understanding the market, it is crucial to understand whether the real risks are being covered. FinScope surveys again show that many of the real risks that people face are insurable events, but go uncovered. While insurance companies tend to believe that the access frontiers are the unbanked and non-payroll customers, FinScope showed that in addition to the current 6% of South Africans who have household contents insurance, there are 29% within fairly easy reach. Beyond that, the challenges are trickier.

To address the transaction costs of dealing with low-income households, transactional banking services are essential so that premiums can be collected and claims paid. However, ATM densities in Africa are extremely low. For example, Tanzania has one ATM per 600,000 people compared with over 100 for the same number of people in Brazil. On the other hand, technology could play a unique role, given that the use of mobile telephones is high. In Botswana for example, 43% have access to a mobile phone, including 36% of the unbanked. In the wake of what may be a new mobile phone banking wave, townships have many airtime vendors, and airtime is becoming accepted as a currency, pointing to the potential of using technology to increase access.

The new technology, which holds the key to cutting transaction costs, finally appears to have reached a critical mass, being user-friendly and accessible, but it requires micro-insurers to change the supply landscape and address customer-adoption issues. A majority of consumers are prepared to use technology (65%) but still prefer to deal with someone face to face (56%).

Coupled with technology and the role of branchless banking – along the lines of the Brazilian model – is a notable supervisory and regulatory issue. While policy makers become more activist, interventions often have unintended consequences, restraining access. More appropriate tools to improve the enabling environment are necessary. Further, regulators will need to consider a regional approach, with cross-border assessment of interventions and harmonisation to facilitate the growth of regional players.

Whilst improving access is challenging, a greater use of technology, proactive supervisory involvement, and greater information on the risks and needs of consumers are starting to create the right conditions to increase access.

## Introduction by the organisers

Craig Churchill  
ILO, Switzerland  
Chair, CGAP Working Group  
on Microinsurance

Dirk Reinhard  
Vice-Chairman,  
Munich Re Foundation

According to recent research from the MicroInsurance Centre, fewer than 3% of poor people in the poorest 100 countries have formal insurance of some sort. Poor households are especially vulnerable to risk, both in the form of natural disasters as well as more regular occurrences, such as illness and accidents. Recently published reports on climate change show that the situation is getting worse.

Microinsurance is an important tool to reduce risks for people with low incomes, but there are great challenges as well as opportunities. Can we – governments, donors and regulators, as well as insurers, reinsurers, and finance and development organisations – together find the will and means to effectively serve this sizeable market?

That was the focus as 150 experts and practitioners from 30 countries representing 80 entities gathered in Cape Town on 21–23 November for the Microinsurance Conference 2006: Making insurance work for Africa.

The conference was the second sponsored by the Munich Re Foundation in cooperation with the CGAP (Consultative Group to Assist the Poor) Working Group on Microinsurance. It was held with the support of the South Africa-based FinMark Trust, and enabled microinsurance experts from Europe, North America, Asia and Latin America to share their views.

The first conference, held in Munich in October 2005, brought together a hundred specialists from around the world to look closely at some 20 “good and bad practice” case studies conducted by the Working Group as well as technical and operational issues in microinsurance.

The second conference featured the launch of the book “Protecting the poor – A microinsurance compendium.” This 650-page book synthesises lessons drawn from the case studies and experiences of microinsurance pioneers around the world – analysed by 38 authors, including academics and insurance and development professionals.

The findings reveal that “microinsurance is indeed viable, and even profitable under some circumstances, but a number of difficulties must be overcome for it to succeed.” This report summarises the main points made in the 21 sessions.

An in-depth and practical look at these challenges, needs and opportunities – particularly in Africa – that drove the agenda of the Cape Town conference. In five panels and 16 parallel sessions, 57 presenters interacted with the participants to explore ways of enhancing and increasing the outreach of microinsurance.



## Introduction by the organisers

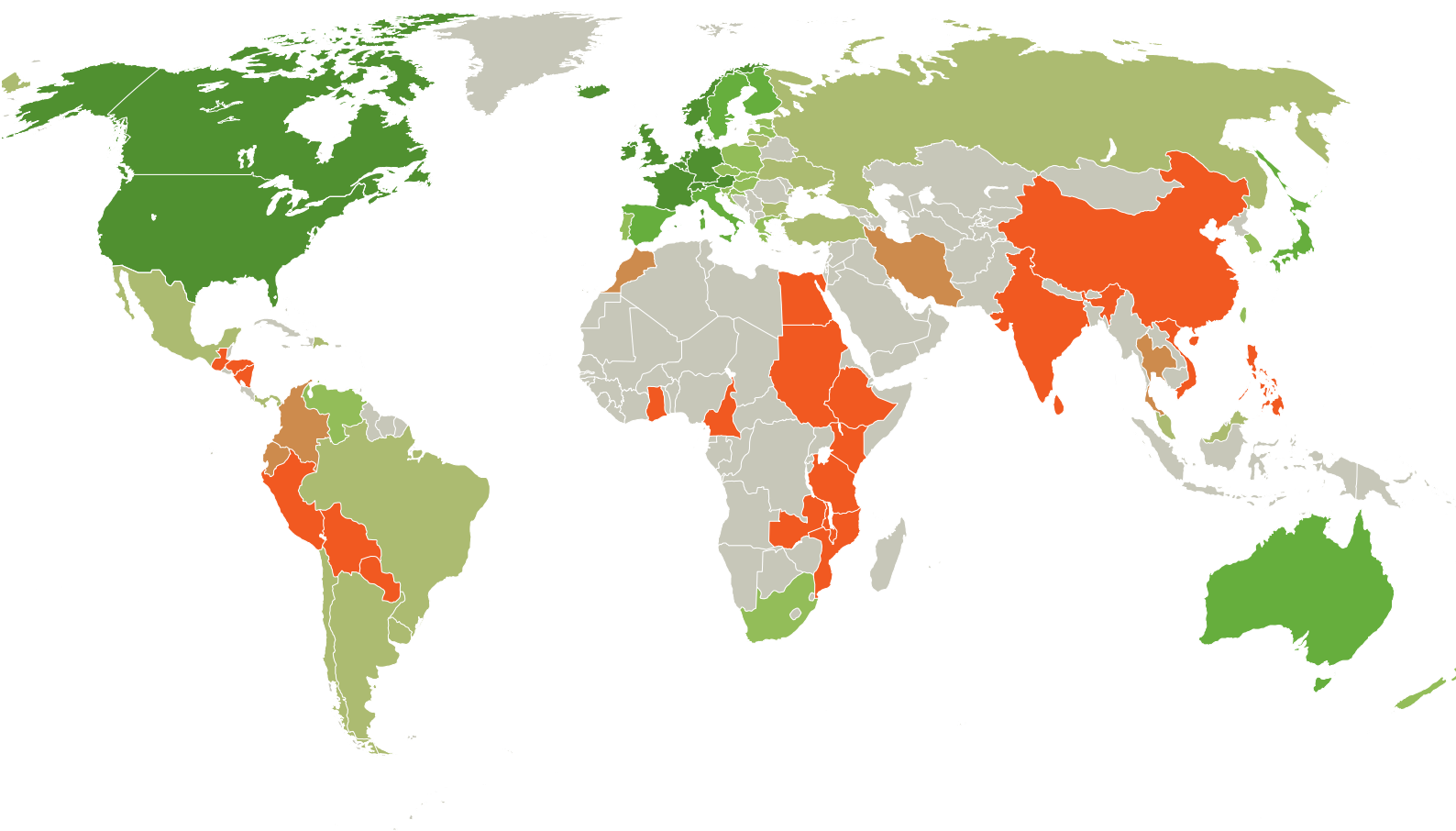
## Worldwide per capita distribution of insurance premiums

The world is made up of the insured and the uninsured. There is a thriving market for microcredits and micro-insurance in the developing world.

Property insurance premiums (non-life including health) per person and per year

- Uninsured  
● US\$1–25
- Basically insured  
● US\$26–50
- Well insured  
● US\$51–100  
● US\$101–500  
● US\$501–1,000  
● > US\$1,000
- No data

Source  
Munich Re, 2006



## Launch of the new book

## Protecting the poor – A microinsurance compendium

The conference began by launching a new book published by the International Labour Organization and Munich Re Foundation, *Protecting the poor – A microinsurance compendium*, edited by Craig Churchill from the ILO's Social Finance Programme.

Based on an in-depth analysis of 40 microinsurance schemes around the world conducted for the CGAP Working Group on Microinsurance, this authoritative book, written by 38 microinsurance experts, brings together the latest thinking of leading academics and insurance and development professionals in the microinsurance field. The result is a practical, wide-ranging resource which provides the most thorough overview of the subject to date.

The book defines microinsurance as the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. This definition is essentially the same as one might use for regular insurance except for the clearly prescribed target market: low-income people. However, as demonstrated throughout the book, those three words make a big difference.

"This book brings together the perspectives and experiences of many organisations and experts all in one place," said Churchill. "The CGAP Working Group can be proud of producing such a comprehensive volume, but we cannot rest on our laurels. The next step is to disseminate the book and the lessons that it contains, and to stimulate further innovation to cover more poor people with better insurance products."

### Contents of the book

#### Part 1

##### Principles and practices

- What is microinsurance?
- The demand for microinsurance
- The social protection perspective on microinsurance

#### Part 2

##### Microinsurance products and services

- Challenges and strategies to extend health insurance to the poor
- Long-term savings and insurance
- Savings- and credit-linked insurance
- Meeting the special needs of women and children

#### Part 3

##### Microinsurance operations

- Product design and insurance risk management
- Marketing microinsurance
- Premium collection: Minimising transaction costs and maximising customer service
- Claims processing
- Pricing microinsurance products
- Risk and financial management
- Organisation development in microinsurance
- Governance

#### Part 4

##### Institutional options

- Cooperatives and insurance: The mutual advantage
- The partner-agent model: Challenges and opportunities
- The community-based model: Mutual health organisations in Africa
- Institutional options for delivering health microinsurance
- Beyond MFIs and community-based models: Institutional alternatives
- Retailers as microinsurance distribution agents
- Microinsurance: Opportunities and pitfalls for MFIs

#### Part 5

##### The role of other stakeholders

- Role of donors
- An enabling regulatory environment for microinsurance
- The promotional role of governments
- The role of insurers and reinsurers in supporting insurance for the poor
- The provision of technical assistance

#### Part 6

##### Conclusions

- Strategies for sustainability
- The future of microinsurance

The book can be downloaded at [www.microinsurancecompendium.org](http://www.microinsurancecompendium.org)

The book can be ordered via the ILO: [www.ilo.org/public/english/support/publ/intro/](http://www.ilo.org/public/english/support/publ/intro/)



# Agenda

## Day 1/1

### 22 November 2006

08.30–09.00	Opening day 1	Opening address <u>Jeremy Leach</u> FinMark Trust, South Africa
09.00–10.30	Panel 1 What is insurance for the low-income market?	<u>Craig Churchill</u> ILO, Switzerland  <u>Monique Cohen</u> Microfinance Opportunities, USA  <u>Dominic Liber</u> Quindiem Consulting, South Africa  <u>Jeremy Rowse</u> Consultant, South Africa  Facilitator <u>Dirk Reinhard</u> Munich Re Foundation, Germany
10.30–11.00	Coffee break	
11.00–12.30	Panel 2 Institutional options	<u>Grzegorz Buczkowski (cooperatives)</u> TUW SKOK, Poland  <u>Doubell Chamberlain (retailers)</u> Genesis Analytics, South Africa  <u>Bénédicte Fonteneau</u> (community-based) University of Leuven, Belgium  Facilitator <u>Gaby Ramm</u> Senior Adviser to GTZ, Germany
12.30–14.00	Lunch break	



## Panel 1

## What is insurance for the low-income market?

Craig Churchill  
ILO, Switzerland

Monique Cohen  
Microfinance Opportunities,  
USA

Dominic Liber  
Quindiem Consulting,  
South Africa

Jeremy Rowse  
Consultant, South Africa

Facilitator  
Dirk Reinhard  
Munich Re Foundation,  
Germany

Microinsurance helps achieve two objectives that are part of the ILO's mission: social justice, and inclusive financial markets. It represents not only a new market for the private sector, but also social security for workers in the informal economy and others classed as poor – a vast majority of whom do not have the public safety net which governments in developed countries are able to provide. As a tool against poverty, microinsurance is a significant factor benefiting economic growth and human development.

Microinsurance, whether provided through the private sector or a public scheme, has a core element: products and services must conform to the generally accepted insurance principles. This is also a core requirement adopted by the International Association of Insurance Supervisors (IAIS).

Challenges to entry into the low-income market include gender, income level, location and lack of understanding of insurance. Insurance education to link the product to the customer involves teaching the knowledge, skills and attitudes required to adopt good money-management and risk-management practices. Those who need this education include MFI staff and agents as well as policyholders.

Although insurance is regarded as an intangible, it takes on a material dimension when a claim is made. The swift and efficient payment of a claim not only meets the needs of the customer, it also counters the inherent scepticism around insurance products and reinforces the promise on delivery. Serving the low-income market, microinsurers should keep in mind a South African insurer's motto: "Today's claim payment secures tomorrow's new business."

**Life for the poor is one long risk.**

A formal insurance product to help them cope must have five attributes:

- 1 Coverage (of real perils)
- 2 Accessibility
- 3 Timeliness
- 4 Affordability
- 5 Value for money

In South Africa, the emerging market was recognised in the early '80s, particularly by four smaller insurers which saw the low-income market's historical disadvantage in requiring low-cost administration creating a strategic advantage for those able to keep such costs low in meeting the needs of this emerging, rapidly growing market. They realised that in the market of lower but regularly paid workers, sales growth further lowered unit costs which in turn improved the value proposition to the customer. Such product innovations as

- wider family cover,
- premium collection by salary deduction,
- and online real-time claims approval and transfer of payments

resulted in substantial penetration in South Africa.

1  
Left to right:  
Jeremy Leach,  
FinMark Trust,  
South Africa;  
Craig Churchill,  
ILO, Switzerland;  
Monique Cohen,  
Microfinance  
Opportunities,  
USA;

Dominic Liber,  
Quindiem  
Consulting,  
South Africa;  
Jeremy Rowse,  
Consultant,  
South Africa





## Panel 1

What is insurance for  
the low-income market?

In the 100 poorest countries microinsurance covers 78 million, but this is not even 3% of the poor.

The size of the funeral insurance market is estimated to be in excess of ZAR18bn (US\$2.4bn). And 28 formal insurers now operate under funeral assistance licence, with net premiums of just over ZAR3.8bn (US\$373m). Of these, four are only registered for funeral business – including two which are in the process of winding down. 50 friendly societies submitting financial statements to the FSB reported premium income of ZAR69m (US\$9.2m) per year. Of these 50 societies only five are reported to provide contractually guaranteed benefits to their members and are, therefore, considered to be offering insurance. The remainder are offering non-guaranteed benefits mostly in the form of traditional burial societies.

Some of these insurers started to export their formula to other African countries in the '90s as they recognised the potential in other low-income markets.

Future changes expected in meeting the needs of this market include:

Process improvements

- Mobile phone and call centre administration
- New distribution and premium-collection options via retailers and affinity groups

Product innovations

- Pricing in line with customer risk requirements
- Value-added benefits such as event arrangement for funerals
- Loss-of-income illness benefits
- A non-lapsable policy

A lapse is not a lapse when people are on irregular incomes. If they cannot pay premium, the microinsurer should accumulate cover until they can pay – and consider payment in kind.

Success will depend on customer education and changes in regulation. In South Africa, for example, the government could dramatically improve the accessibility of burial benefits today by providing life companies with electronic access to the government's death register.

Policies are "turned on" and "turned off" as ongoing affordability dictates. Microinsurers should recognise this aspect of the market and link cover to premium payment, irrespective of regularity.

Preliminary findings of a landscaping study on the world's 100 poorest countries show that microinsurance schemes cover a total of 78 million people. However, this number includes some 20 million from China and eight million from India – making the outreach across other countries less extensive than the total might indicate. Overall, the total accounts for less than 3% of the poor.

Ignorance and lack of awareness of insurance have a narrow, nuts-and-bolts implication (not knowing what a policy covers), but also result in a broad-scale absence of insurance from the culture and from social awareness.

Microinsurers are optimistic but face barriers, especially consumer ignorance.

A variety of approaches have been tried, but few have reached any significant scale.

Case studies, e.g. from India and Zambia, show that there is a high dropout rate among the poor. The 78 million now microinsured may not be quite so numerous tomorrow – unless steps are taken to preserve their business and to focus on innovations such as "the non-lapsable policy".

## Panel 2

## Institutional options

## Panellists\*

Grzegorz Buczkowski  
(cooperatives)

TUW SKOK, Poland

Doubell Chamberlain  
(retailers)

Genesis Analytics, South Africa

Bénédicte Fonteneau  
(community-based)

University of Leuven, Belgium

## Facilitator

Gaby Ramm

Senior Adviser to GTZ, Germany

The case of TUW SKOK – a mutual insurance company of cooperative savings and credit unions in Poland providing credit unions with corporate covers and their members for individual covers (except motor insurance) – shows that the **cooperative/mutual** form is an organisational solution suitable for an MFI-related market.

Built around an outsourcing model, with functions retained as the need and economy dictate, TUW SKOK developed from a brokerage firm to a full-service insurance organisation. This model may serve other affinity groups too, placing their insurance company at various points along the development axis in response to their needs and capacity.

Genesis Analytics (South Africa) demonstrates how retailers can be used as effective intermediaries for microinsurance.

Intermediation may involve a large number of functions – not only sales, premium collection and claims payment, but also policy administration and serving key third parties. Retailers are being found that are playing some or all of these roles.

A strong brand presence and trust are key, and retailers often have these characteristics, whether retailer intermediation is stand-alone, account-based or bundled/embedded.

Some challenges that these models face are

- how to extend success beyond compulsory covers and funeral insurance to other lines; and
- how to compensate for lack of advice where disclosures accompanying tick-box selling may be disregarded or not understood.

The **community-based model** has many forms and approaches. In the “ideal” type – mutual health organisations (mutuelles de santé), in francophone Africa – members are also owners/policyholders/decision-makers. These entities involve participation in the design of the health-risk products, and in financial and organisational control mechanisms, risk sharing and resource pooling.

Membership is voluntary and there is a community bond, based on an organisation or village. Accessibility is emphasised, as are functions beyond insurance: health education, and representation of the healthcare demand side. The model calls for an enabling environment (commitment of health authorities and hospital management), coordination with external support organisations, long-term access to training and actuarial services, and in many cases external financing, at least initially.

\* For a description of the various institutional options, see also the report on the Microinsurance Conference 2005

Panel 2  
Institutional options

The poor may not know the concept of insurance well enough (insurance illiteracy), but they have an eye for value.

The **partner-agent model**, which enables the two organisations to maximise synergies while focusing on their core business and expertise, has a number of advantages. For an NGO or MFI, it makes scaling-up of products possible through a registered insurance provider, and the link to formal insurance business officially recognises microinsurance as an instrument of social protection.

The main challenge is that both parties are dependent on the quality of the other. This model, therefore, calls for an investment in institution-building: regular interaction between the insurance provider and the partner, and ongoing dialogue with the regulator on issues such as outreach, commission levels and consumer protection. Experience also points to the need to consider the gender perspective in product development.

Conducive political conditions help strengthen the partner-agent as well as other institutional models. Insurance providers should be enabled to develop customised products and procedures, and civil society should have government commitment to social protection for the informal economy.

**Microinsurance** can be delivered through a variety of institutional forms, including cooperative/mutual, retailer intermediation, community-based and partner-agent models.

Whichever option suits local conditions, value for money must underpin the two core functions of insurance: sales and claims.

In South Africa, the mobile phone, rather than the internet, is used for many financial transactions – and that may be true of other markets as they develop.

Among the poor, the plight of women needs special attention. In micro insurance product development, the gender perspective should be a priority.

In institution-building, it is important to battle-test a model in the market.

As a microinsurer grows and becomes established in what may be a developed market, it will see compliance requirements increasing exponentially – a function that cannot be outsourced.

There is also an increasing need to stay in tune with the changing customer base. Feedback on performance is important for long-term survival.

Insurance is complex and mis-selling it is easy – and not always intentional.

From an operational viewpoint, the two faces of insurance are sales and claims, and from the customer's perspective, value for money should underpin the two. The poor may not know insurance well, but they are not stupid and have an eye for value.

2  
Left to right:  
Bénédicte  
Fonteneau,  
University of  
Leuven, Belgium;  
Grzegorz  
Buczowski, TUV  
SKOK, Poland;

Gaby Ramm, Senior  
Adviser to GTZ,  
Germany;  
Doubell Chamber-  
lain, Genesis  
Analytics, South  
Africa



## Mainstream insurers are active in the low-income market, particularly when pushed with regulation.



3

3  
Left to right:  
Mosleh Ahmed,  
Consultant UK;  
Denis Garand,  
Consultant,  
Canada



4

4  
Left to right:  
Kjell Wirén,  
Folksam, Sweden;  
Zahid Qureshi,  
Consultant  
Canada



5

5  
Douglas Barnert,  
Barnert Global  
Ltd., USA



6

6  
The important  
back-office:  
Petra Hinterams-  
kogler, Markus  
Heigl, Angelika  
Boos (right to  
left)

7  
Panel 1 opens  
the discussion  
on insurance for  
the low-income  
market



7

# Agenda

## Day 1/2

### 22 November 2006

14.00–15.00

Parallel sessions

Case studies/Working groups

CS 1

AIG, Uganda/Madison Insurance, Zambia  
(Partner-agent model; credit-linked life  
and disability)

Agnes Chakonta  
Madison Insurance, Zambia

Robert Gordon  
AIG, South Africa

CS 2

VimoSEWA, India  
(Partner-agent; voluntary life, health and asset)

Denis Garand  
Consultant, Canada

CS 3

West African health mutuals  
(Community-based; health)

Aly Cisse  
ILO, Senegal

Bénédicte Fonteneau  
University of Leuven, Belgium

CS 4

Insurers and retailers, South Africa  
(Regulated-insurance companies; various risks)

Doubell Chamberlain  
Genesis Analytics, South Africa

Jeremy Leach  
FinMark Trust, South Africa

15.00–15.30

Coffee break

15.30–16.30

Parallel sessions

Case studies/Working groups

CS 5

Yeshasvini Trust, India/TUW SKOK, Poland/  
MUSCCO, Malawi  
(Cooperative model; various risks)

Grzegorz Buczkowski  
TUW SKOK, Poland

David Dror  
Erasmus University Rotterdam,  
the Netherlands

Kjell Wirén  
Folksam, Sweden

CS 6

Microcare, Uganda  
(Regulated-insurance company; health)

Dominic Liber  
Quindiem Consulting, South Africa

Gerry Noble  
Microcare, Uganda

CS 7

TATA-AIG, India/Delta Life, Bangladesh  
(Regulated-insurance company; endowment)

Vijay Athreya  
TATA-AIG, India

Craig Churchill  
ILO, Switzerland

CS 8

Great North Burial Society, South Africa  
(Community-based; life)

Samuel Leshabane  
Great North Burial Society, South Africa

Daniel Masemola  
Great North Burial Society, South Africa

Richard Walker  
Genesis Analytics, South Africa

16.30–17.00

Coffee break

17.00–18.30

Panel 3

Challenges and strategies to extend health  
insurance to the poor in Africa

Dominic Liber  
Quindiem Consulting, South Africa

Gerry Noble  
Microcare, Uganda

Marius Olivier  
University of Johannesburg, South Africa

Facilitator  
David Dror  
Erasmus University Rotterdam,  
the Netherlands

20.00–23.00

Reception



## Parallel sessions

### Case studies\*

#### Speakers

Agnes Chakonta  
Madison Insurance, Zambia

Doubell Chamberlain  
Genesis Analytics,  
South Africa

Aly Cisse  
ILO, Senegal

Bénédict Fonteneau  
University of Leuven,  
Belgium

Denis Garand  
Consultant, Canada

Robert Gordon  
AIG, South Africa

Jeremy Leach  
FinMark Trust,  
South Africa

AIG Uganda has 26 partner MFIs, including one in Tanzania and one in Malawi. The parent, AIG, has a global network of programmes in some 130 countries and jurisdictions that continually share elements and lessons from local operations.

\* The case studies examined include two companies – TATA-AIG and Delta Life – that were also featured in the 2005 Conference, and others such as TUV SKOK and Madison Insurance that were discussed in various thematic and operations groups a year earlier. They made the 2006 agenda, too, to help ensure that the largely different audience did not miss the cases' key lessons.

#### AIG Uganda

Institutional model:  
Partner-agent

People insured:  
1,600,000

Benefit:  
Group accident, credit life

Premium range:  
0.5% of loan amount

AIG Uganda is part of one of the world's largest insurance groups. It launched its first microinsurance product in Uganda in 1997 in partnership with one MFI, and has since expanded its operations to 26 MFIs, including one in Tanzania and one in Malawi. It offers a group personal accident product with disability, accidental death and credit life insurance to some 1.6 million people altogether: borrowers of the MFIs and their family members. All but one of the MFI partners make insurance mandatory for their borrowers.

AIG Uganda developed products, distribution and service specifics complementing the MFIs' infrastructures, in most cases using a licensed tied insurance agent to act as an intermediary.

The MFI market in Uganda is focused on small enterprise development loans made for very short periods, mainly to groups of women involved in kerbside trading or traders in recognised open markets. Loan periods are generally three to six months and are rolled over. In some cases, a number of women are jointly responsible for repayment of the loan.

AIG Uganda is keeping an eye on developments in other markets in Africa, too. In Nigeria, for example, consolidation of banks and the insurance industry is creating an opportunity for bancassurance. There are not many MFIs there, but credit is starting to become available.

#### Lessons learnt

Products, distribution and service should complement the partner MFIs' infrastructure.

Use licensed tied agents as intermediaries.

Expand operations to use economies of scale.

#### Madison Insurance, Zambia

Institutional model:  
Partner-agent

People insured:  
31,700

Benefit:  
Loans and funeral insurance

Premium range:  
0.9–2.75% of loan amount

Madison Insurance started offering microinsurance products in Zambia in 2000 in partnership with MFIs. There are over 31,000 subscribers to its group credit life and group funeral insurance products. The purchase of credit life insurance policies is mandatory for people who borrow money from the partner financial institutions.

If credit life were made optional, a majority of clients would not take up cover – leaving the MFIs exposed. Funeral insurance, however, can be voluntary, especially if it is expected to cover other family members.

The insurance cover removes the need for the poor to provide collateral security for a loan. This leads to more people using loans to improve their living standards.

Most clients have a shallow understanding of insurance features and benefits. There also is a dearth of insurance knowledge among MFI managers. Though acting as an agent for an insurance company is the easiest way for an MFI to provide microinsurance, it still requires some work and expertise. Neglect of insurance services causes its own product dissatisfaction among clients – which also contributes to delinquencies and dropouts.

8  
Robert Gordon,  
AIG, South Africa

9  
Agnes Chakonta,  
Madison Insurance,  
Zambia

10  
Denis Garand,  
Consultant,  
Canada, explaining financial  
details of  
the VimoSEWA  
scheme

## VimoSEWA, India

Institutional model:  
Partner-agent

People insured:  
110,000

Benefit:  
Voluntary life, health and asset

Premium range:  
US\$2.38–5.05

MFIs should be viewed not so much as agents but as policyholders and administrators of microinsurance.

While three of the MFI partners of Madison receive a 10% commission from it, one has negotiated a profit-sharing arrangement.

#### Lessons learnt

There are no exclusions in the policies offered by Madison. Before introducing insurance, MFIs used to screen out potential borrowers suspected of being HIV-positive.

With insurance, members are no longer responsible for the outstanding loan in the event of death or prolonged illness, and MFIs do not exclude members who might be HIV-positive as long as they appear physically healthy.

A notable fact is that in Africa malaria is a bigger problem than HIV/AIDS: more people die from it.

The Self-Employed Women's Association (SEWA) is a trades union founded in 1972 in the Indian state of Gujarat. It set up a special department for insurance in 1992, VimoSEWA, which acts as an insurance broker. VimoSEWA offers a voluntary product with life, health and asset benefits covering more than 110,000 persons. The insurance product, which is undergoing many changes, is now offered in partnership with two private-sector insurance companies, AVIVA and ICICI Lombard. For some years, VimoSEWA was the risk-bearer too, but went back to the partner-agent model following an earthquake claim after the Gujarat earthquake in 2001. It now manages product design, distribution, data, claims payment and all service aspects.

Distributing the product mainly via its aagewans (sales promoters), VimoSEWA promotes whole family coverage and greater community participation. Its management information system (MIS) captures all premium and demographic information as well as claims data, enabling management to understand and improve operations.

For health cover, VimoSEWA is planning a cashless benefit – which would result in better monitoring of hospital treatment and more efficient quality care. Also in place is a process for dealing with claims from natural disasters.

Benefiting from assistance from seven donors over the years, VimoSEWA is now mostly operating on its own and focused on achieving viability within seven years. It has learned that self-insurance can be a big risk, that an insurance organisation should have a good MIS from the start, and that it should continuously look at process improvement to drive down expenses.

Lessons in marketing are to target family coverage, high renewal rates, and whole communities in a concentrated geographic area – finding methods to enrol groups, and using threshold incentives for renewals and for deepening outreach.

From 2001 to 2006, the number of VimoSEWA's insureds increased dramatically from 30,000 to 170,000. Now, during an annual campaign, almost every policyholder is visited once. As a result, the renewal rate has improved from 20% to 70%.

#### Lessons learnt

Focus on whole-family coverage and community participation.

Look into cashless benefit for health cover.

Rely on a good MIS for improving processes to drive down expenses.

Keep an eye on viability, and review goals periodically.



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## Parallel sessions

### Case studies

#### West African health mutuals (Community-based insurance)

The ILO/STEP programme, initiated in 1998, is being implemented in West Africa to extend social protection to excluded groups, particularly with regard to health care, through an integrated approach.

STEP has developed a number of tools:

- Improved information (inventories and case-study guides)
- Introduction to health mutuals
- Technical, methodological and didactic tools
- Networking/lobbying opportunities

Importantly, a diverse set of institutions and links have emerged that have been key to the growth and success of microinsurance. In particular, linkages between different scales and types of insurances have facilitated shared management systems and harmonisation of practices.

Microinsurance has provided a positive contribution in the context of states with weak financial and institutional capacity by enabling civil-society participation in the design and management of the schemes, reduced transaction costs and improved conditions of access to healthcare.

However, challenges have included limited membership which reduces risk pools, as well as poor management skills, weak information systems and capacity to negotiate with health-care providers.

At a national level, there has been a lack of coherence and institutional support. Options for addressing the challenges include the outsourcing of technical management and use of computerised MIS, new financing mechanisms and the development of a modified legal framework.

When extending social security through isolated microinsurance schemes, the positive aspects (that might include participation and proximity) should be acknowledged as well as the fact that this process takes time.

Options should be researched, including voluntary versus automatic inclusion and different methods of payment, such as indirect payment. In order to succeed, strong political will is critical, accompanied by the involvement of social partners and technical input from market participants who are willing to work together. External partners, such as federations of like-minded people-oriented organisations, help extend social protection to excluded groups, in particular with regard to health care. These partners may include groups sharing common characteristics – agricultural producers, trade unionists, villagers, etc. – which can improve access to healthcare through solidarity mechanisms.

#### Lessons learnt

##### In mutuelles de santé

Limited membership reduces risk pools.

Weak management skills/systems hamper negotiation with healthcare providers.

Technical management should be outsourced and new financing mechanisms developed.

Strong political will, an enabling legal framework and support of social partners are critical.



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12

11  
Bénédicte  
Fonteneau,  
University of  
Leuven, Belgium

12  
Aly Cisse, ILO,  
Senegal

13  
Doubell Chamber-  
lain, Genesis  
Analytics, South  
Africa

14  
Jeremy Leach,  
FinMark Trust,  
South Africa

Insurers and retailers, South Africa  
(Regulated-insurance companies;  
various risks)

In South Africa, 4.2 million people have banking but no insurance, and 3.3 million have a mobile phone (most are sophisticated users, linked to retail distribution and with store card accounts able to access credit).

Some 2.2 million belong to a burial society (which serves as a client-concentration point). Microinsurance is still largely limited to funeral insurance and any compulsory covers (funeral insurance is bought, not sold; other products such as credit insurance are sold, not bought).

Microinsurance enhances financial planning for poor households and the overall ability to find ways out of poverty. In South Africa, microinsurance clients have proven themselves to be sophisticated and capable of applying complex risk management techniques. Retail experience in South Africa points to challenges in terms of education and marketing at the point of sale. Also evident are some of the advantages of utilising technologies like mobile phones for uptake and renewal, as well as for premium payments.

Regulators in South Africa are wary of turning airtime into currency, and companies are interested in finding legal ways to make airtime a form of payment for financial services such as premiums. However, a range of options are available to facilitate microinsurance provision, such as mobile phones linked to bank accounts.

Studies and more data are needed about the relationship between microinsurance participation and poverty reduction efforts. What is clear is that microinsurance does not exonerate the government from a social welfare role.

The government also has a role in consumer education. It is in the interest of insurance companies for clients to be better educated. Insurance and other financial services companies and governments should work together to define what financial literacy is and provide a platform for literacy drives, with the government taking on a facilitative and coordinating role.

Microinsurance can best serve the risk-management needs of its clients by being based on solid, competitive business models. While there is a substantial social benefit from improving the risk management tools available to poor households, it is critical that these tools be provided in a way that meets the specific needs of clients. Experience in South Africa indicates that if client needs are met through tailored products, poor clients are willing to pay the premiums.

For voluntary sales, the low-income retailer distribution models in South Africa are based on passive sales models. Given the fact that most insurance products are "sold not bought", the passive sales models have not yet proven themselves to be successful. Funeral insurance may be successfully distributed through such passive models, as it has shown itself to be the exception by being bought rather than sold. The absence of advice or even verbal disclosure of information on the product in these passive models may, however, unintentionally lead to mis-selling.

These passive models rely on having room in the current regulations to conduct "tick-box" selling without advice in order to avoid the regulatory burden placed on advice-based selling. These models have not been officially sanctioned by the regulator and risk being closed down due to fear of consumer abuse.

### Lessons learnt

Funeral insurance is bought, not sold; other products are sold, not bought. The result is that these may successfully be distributed through retailer models based on passive sales. It must be noted, however, that, due to the absence of advice or even verbal disclosure, the passive sales model may risk mis-selling.

Government and financial services companies should work together to define and promote financial literacy.



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## Parallel sessions

### Case studies

Yeshasvini Trust, India

Institutional model:  
Cooperative model

People insured:  
1,500,000

Benefit:  
Surgeries, outpatient care

Premium range:  
US\$2.72 (half for a child)

#### Speakers

Vijay Athreye  
TATA-AIG, India

Grzegorz Buczkowski  
Tuw SKOK, Poland

Craig Churchill  
ILO, Switzerland

Aly Cisse  
ILO, Senegal

David Dror  
Erasmus University Rotterdam,  
the Netherlands

Samuel Leshabane  
Great North Burial Society,  
South Africa

Daniel Masemola  
Great North Burial Society,  
South Africa

Kjell Wirén  
Folksam, Sweden

Richard Walker  
Genesis Analytics,  
South Africa

Yeshasvini Cooperative Farmers Health Care Trust is a charitable trust in Karnataka. Its microinsurance activities were initiated in 2002 in collaboration with state authorities and the cooperative movement. The trust offers health insurance and covers some 1.5 million people.

The product is distributed through local cooperatives. The trust out-sources certain activities to third-party administrators, but manages the risk in-house. The benefits, which are provided cashless to the clients, can only be accessed at certified partner hospitals. Benefits are primarily limited to surgery, but also include some outpatient care and tests.

Major surgeries covered are cardiac, vascular, gastroenterology, orthopaedic and neurosurgery.

There is medical emergencies coverage for stabilisation after injuries caused by snakebites, bull goring, electric shocks, drowning, agricultural equipment and dog bites.

Acute infections are the most prevalent, but their expenses are not covered by Yeshasvini health insurance.

Premium is INR120 (US\$2.72) for an adult, and INR60 for a child. Clients are not among the poorest, and have more income and education than the poor generally. However, dependants are not often insured and the oldest are excluded (there is an age limit of 75). Out-patient drugs are also not covered.

Yeshasvini has a target group of 20 million available as well as government involvement and support. Its experience points to a main challenge for similar initiatives: how to subsidise healthcare without dampening the clients' willingness to pay.

#### Lessons learnt

Affiliate whole households to reduce adverse selection and prevent exclusion.

Adjust the product to the amount clients are willing to pay; do not rely on subsidies which will not last long.

Adjust the product to the clients' needs, not the suppliers' interests.

Listen to what clients prioritise; cover expensive events rather than only rare catastrophic events.

15  
Left to right:  
Grzegorz  
Buczkowski, Tuw  
SKOK, Poland;  
David Dror,  
Erasmus Univer-  
sity Rotterdam,  
the Netherlands;  
Kjell Wirén,  
Folksam, Sweden

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Participants of  
Working Group 5,  
eager to learn  
more about the  
cooperative  
model



TUW SKOK	MUSCCO, Malawi
Institutional model: Cooperative model	Institutional model: Cooperative model
People insured: 1,500,000	People insured: 56,000
Benefit: Property, savings, AD&D	Benefit: Loan and savings insurance
Premium range: US\$26.00–58.00	Premium range: US\$0.04 per 1,000 sum

TUW SKOK is the foremost insurance provider for credit unions in Poland. Strictly speaking, its products may not be deemed micro in scope, but, based on the cooperative model, they in essence yield lessons worth keeping in mind for the development of microinsurance. TUW SKOK started operations with two corporate products in 1998 (a predecessor was created in 1993), and now has 16 products for corporate and individual needs.

The company offers a property product, a savings completion product and three accidental death and disability products that can be considered microinsurance. All TUW SKOK's microinsurance products are sold as group insurance.

Before introducing new products, TUW SKOK used pilot tests to "kill potentially bad products". TUW SKOK's defined niche market comprises 72 credit unions, 1,600 branches and 1.5 million members (including some 95,000 low-income policyholders). It interacts constantly with credit unions, and works hard with them to implement loss prevention measures. Products for credit unions themselves include deposit insurance.

Operating in a fully developed legal environment, TUW SKOK requires professional capacity at all levels of operation. It outsources many activities such as sales, which are made through credit unions, and actuarial services.

#### Lessons learnt

Grow with demand, in response to customers' needs and capacity.

Battle-test products in the market.

Group insurance fits the micro scale.

Focus on loss prevention.

At its peak in 2000, Malawi Union of Savings and Credit Cooperatives (MUSCCO) served 111 cooperatives with 66,000 members.

It was founded in 1980 with the help of the Catholic Church and the government, and its credit life and life savings microinsurance products were backed by CUNA Mutual (USA) until 1997 when that organization withdrew from the market.

Of Malawi's ten million people, an estimated 20–25% have HIV/AIDS.

Since then, MUSCCO has been running the loans and savings insurance programme on its own without re-insurance, managed by two staff in its head office. A relatively sizeable reserve enables MUSCCO to manage the risk in-house.

MUSCCO's credit unions target low-income groups, small farmers and government employees. Its products are exclusively (and compulsory) for its cooperative partners' members, now totalling about 55,000 in 57 credit unions.

Both of MUSCCO's products are credit-union pay covers, with premium for all eligible loans and savings balances submitted to it quarterly in advance.

Though credit-union pay products like these overcome one of the most significant challenges of micro-insurance – collecting premium from low-income people – MUSCCO has found that, in practice, collecting from even 57 corporate customers can be difficult.

Only a third of the credit unions can be described as disciplined customers; considerable effort has to be made chasing the others for payment. However, the insurance contract does provide for benefit payments to be withheld until the premium is paid.

MUSCCO, for all intents and purposes, is unregulated. The Reserve Bank of Malawi, which supervises the insurance sector, claims no jurisdiction over MUSCCO as it is registered as a cooperative, and the Registrar of Cooperatives lacks the resources and interest to supervise its insurance activities.

#### Lessons learnt

MUSCCO needs

reinsurance for its loans and savings insurance products, to help sustain its hard-earned reserves;

a higher proportion of its credit union policyholders to live up to their commitment to submit premiums;

support and supervision from government.





## Parallel sessions

### Case studies

#### Microcare, Uganda

Institutional model:  
Regulated-insurance

People insured:  
18,000

Benefit:  
Accident and health

Premium range:  
US\$15.00–60.00

Microcare has transformed from a not-for-profit background to become a fully fledged insurance company in Uganda specialising in health insurance. It focuses on the low-income market, drawing from the formal and informal sectors and spanning urban and rural locations. Microcare's objective is to provide "affordable access to quality healthcare".

Malaria is the most common diagnosis for Microcare's health insurance clients, particularly in rural areas. Focusing on loss prevention, Microcare has been providing subsidised (half-price) insecticide-treated nets to rural clients and has experienced a good uptake. It is now preparing to target other diseases amenable to prevention and education: sexually transmitted infections (including HIV/AIDS), sanitation-related water-borne diseases, and emerging "Western diseases" such as obesity and the resultant adult onset of (Type II) diabetes.

In its business plans for expansion, Microcare follows a basic principle of sustainability and profitability: that achieving recovery of all costs requires 25%+ higher premiums.

Microcare Ltd, starting in 2000 as a research organisation, led to the formation of Microcare Health Ltd, a commercial health manager, in 2004 and a year later to a licensed insurer named Microcare Insurance Ltd. In 2006, Microcare pursued a rapid expansion of micro health business in Uganda to achieve commercial viability. The goal in 2007 is international expansion and replication through strategic partnerships.

#### Lessons learnt

Microinsurance is more effective if you work with a group of people and not with individuals. Building trust with the group is very important. This usually takes one to two years.

It is better to work with a relatively stable community or group. There are also certain preconditions for providing microinsurance for health care, such as a functioning hospital system.

- Control is very important. This helps in cutting out fraud.
- Adapt the technology to fit the situation.
- There has to be an effective distribution system.
- Do not cover everything as some options are too expensive for microinsurance to cover.
- A fast turnaround time on payments is essential.

#### Added value of loss prevention

Prevention, particularly in health insurance, helps neutralise the argument: "I paid my premium, but I didn't make a claim," because the insurer can reply: "The reason you did not get sick and did not make a claim is our prevention programme."

17, 18  
Gerry Noble,  
Microcare,  
Uganda, explaining  
the lessons  
learned from the  
Microcare case  
in Uganda



17



18

TATA-AIG, India	Delta Life, Bangladesh
Institutional model: Regulated-insurance	Institutional model: Regulated-insurance
People insured: 200,000	People insured: 1,000,000
Benefit: Endowment and group term	Benefit: Endowment insurance
Premium range: US\$0.10–6.7	Premium range: US\$0.90–1.63

TATA-AIG Life Insurance Company in India is a joint venture of a large conglomerate TATA and the American International Group. The 90 TATA companies employ 260,000 people and account for 1.9% of the country's GDP. AIG employs 97,000 staff worldwide and has a turnover of US\$108bn.

TATA-AIG started microinsurance operations in 2001 to comply with India's insurance regulations, and now offers three voluntary life and savings products through 50 partner NGOs and micro-agents – covering some 200,000 low-income people. Its micro-agents in various communities are recommended by the NGOs, which assist them with training and administration.

TATA-AIG's individual endowment policies are growing at a rate of over 100% per year, and its group term insurance covers 140,000 low-income women. There are two endowment plans: sampoorana bima yojana (limited pay term with return of premium) and ayushman yojana (single premium assured return).

Delta Life in Bangladesh, founded in 1986, launched a voluntary micro-insurance product targeted at workers in the informal economy in 1988. It now offers a range of endowment products to some one million low-income people, mostly in rural areas.

Clients and staff perceive the products more as long-term savings than insurance. Certain occupational groups are excluded from purchasing some specific products.

Delta Life relies on the direct sales model with door-to-door collection of premiums. It grew dramatically in the mid-90s when it provided loans to policyholders. A flaw in lending methodology brought huge losses, and it outgrew its capacity. In 2002 it got back on its feet, and has since been undergoing a re-engineering of administrative systems, MIS and internal controls.

In addition to a with-profits endowment plan with ten- and 15-year terms, Delta offers a biennial plan to pay out 20% of the sum assured every two years (of a ten-year policy). It also introduced a daughter's marriage endowment to mature when she turns 18 years old. Overall, the product design involves shorter terms, less frequent premium payments and more frequent access to savings.

Both TATA-AIG and Delta Life introduced endowments to cater to policyholders who want more than pure risk covers, and both have voluntary, individual products with various premium payment options. Key differences are that Delta uses community pricing, and TATA-AIG offers non-participating products and strives to minimise lapses.

The two companies' experience shows that there is a need in the low-income market to offer long-term savings/insurance vehicles, but that innovations are required to bring down the costs of delivering and servicing these products and to develop new products that accommodate the clients' unpredictable cash flow.

**Lessons learnt from the two cases (TATA-AIG and Delta Life) point to the pros and cons of endowment insurance.**

#### Advantages of endowment products

Give low-income people savings discipline and liquidity, and help them accumulate assets over time.

Combine savings, insurance and credit to enhance risk management.

Overcome key complaint about term insurance: no claim, no benefit.

#### Disadvantages of endowment products

Are difficult to deliver through MFIs.

Require good investment opportunities for the insurer.

Have high expense ratios (more than 40% of premium goes to pay for administrative expenses).

Involve lapses and small surrender values.



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19  
Craig Churchill  
(left) and Vijay  
Athreya, TATA-  
AIG, India  
explaining the  
advantages and  
disadvantages  
of endowment  
products

20  
Vijay Athreya,  
TATA-AIG, India

## Parallel sessions

### Case studies

Great North Burial Society,  
South Africa  
Institutional model:  
Community-based

People insured:  
9,000

Benefit:  
Funeral insurance

Premium range:  
US\$3.45

The Great North Burial Society (GNBS) is an informal risk-mitigation organisation that has grown large enough to potentially become an insurer in its own right. The challenges it has faced highlight the support needed to develop micro-insurance further in South Africa.

The GNBS was established in 1955 and registered in 1962 under the Friendly Societies Act. Burial societies are formed where there are common bonds; they are not-for-profit and are governed and managed by the people.

Following its rapid growth in the 1970s and 80s, the GNBS introduced a "super policy" in the mid-90s against the advice of its actuary who considered it not financially sustainable and was proven right. The society then sought backing from an underwriter, New Era Life (NEL).

The increased payouts from NEL attracted greater membership. However, premium revisions and lapses were treated differently by NEL and the GNBS, placing strain on the GNBS, which remained liable for benefits and wanted to remain a caring society (it covers some 9,000 lives).

After some time, it also emerged that the Friendly Societies Act subjected members to a ZAR5,000 (US\$710) cap on benefits – an amount considered too low for a funeral at today's prices.

GNBS is no longer supported by an underwriter and faces some decisions on how to proceed.

Options include: lobbying for regulatory change that increases the cap, petitioning for the ability for reinsurers to reinsure it as a friendly society, and applying for a dedicated licence for assistance business (which would enable both an increased benefit and reinsurance). GNBS could also act as an intermediary that cross-sells other products.

All options involve challenges. A regulatory change would be timely, but the process is lengthy and does not address the society's immediate need to recover.

### Lessons learnt

A successful partner-agent relationship calls for not only general compatibility between the society and the formal insurer, but also specific streamlining of systems and processes.

In its business plans and financial projections, a society disregards its actuary's advice at its peril.

The society should pursue an on-going dialogue with policy makers and other players to ensure that there is regulatory support for micro-insurers operating in a sustainable and appropriate manner.

### A burial society's limitations

The Friendly Societies Act, under which burial societies in South Africa are registered, provides for:

- A cap on benefits which is below what a funeral costs today
- An exclusion of investments such as equities
- A non-forfeiture clause, barring the treatment of lapses differently (as a "caring" society) to a formal insurer (profit-driven)

21  
Working Group 8  
discussing the  
experience of  
burial societies  
in South Africa

22  
Left to right:  
Samuel Leshabane, Great  
North Burial  
Society, South  
Africa;  
Daniel Masemola,  
Great North  
Burial Society,  
South Africa;  
Richard Walker,  
Genesis Analytics,  
South Africa



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## Panel 3

## Challenges and strategies to extend health insurance to the poor in Africa

### Panellists

Dominic Liber

Quindiem Consulting, South Africa

Gerry Noble

Microcare, Uganda

Marius Olivier

University of Johannesburg,  
South Africa

### Facilitator

David Dror

Erasmus University Rotterdam,  
the Netherlands

Some 35 million people are covered by micro health insurance schemes around the world. There is a range of models and combinations bringing “for-profit” and “not-for-profit” approaches together.

Whenever there is an overbearing profit motive in social services, they tend to be exclusionary and need to be regulated. At the level of serving the poor, the profit motive alone may not be justifiable – but micro insurance units should be “for-profit” insurers; with controls and balances, profit is a good thing.

The real issue in health insurance may be whether the poor might be excluded from cover. How do we insure those who have little or no income? Is health care a basic human right?

In South Africa, the constitution provides for health care for everyone. Twenty years ago, people believed the state should make healthcare available and accessible to all. There was the question of solidarity – the pooling of risks between the rich and poor. The primary issues now are control, management, quality assurance and competition between private healthcare providers. The health financing mechanism is secondary.

Salient features of a legal framework are: the community health insurance structure, governance and financing of micro health insurance units (MIUs), design and cost of the benefits package, choice of the risk carrier, enforcement and dispute resolution. The provision of healthcare to poor people on an insurance basis also involves enabling affordable providers, reinsuring the risks carried, and direction and supervision by the government.

In earlier years HIV/AIDS was excluded as a self-inflicted injury. Covering AIDS patients is different now that the disease can be contained with medicines and therapy.

The state’s participation is important and it is a co-contributor. The reality in Africa is that the state cannot deliver healthcare in most countries – particularly where “the state”, ruled by warlords, is hard to define.

The provision of healthcare and insurance is a long-term game. It is a tough issue for developed countries too.

The strength of Africa is its communities. They should be empowered to pool risks and resources.

23

Left to right:  
Marius Olivier,  
University of  
Johannesburg,  
South Africa;  
David Dror,  
Erasmus Univer-  
sity Rotterdam,  
the Netherlands

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Left to right:  
Gerry Noble,  
Microcare,  
Uganda;  
Dominic Liber,  
Quindiem  
Consulting, South  
Africa

### To develop micro health insurance,

consider the existing legal framework and modify and qualify it, incorporating the specific micro-health context;

define and distinguish roles of members, MIUs, risk carriers and the government;

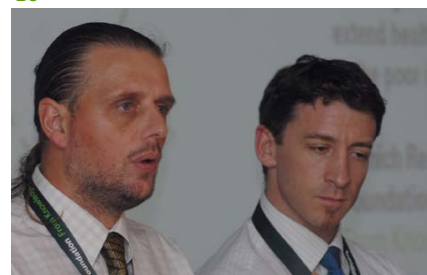
ensure that client care and service delivery are adequate and affordable;

adopt an inclusive approach and consult regularly with members;

strengthen social insurance principles, based on the government’s duty to provide for the poor (including co-contribution and supervision).



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Microinsurance should pinpoint the specific needs of clients and must be based on solid, competitive business models.



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25, 26  
Networking, a key component of the conference

27, 28  
Panel 3 opens the discussion on challenges and strategies to extend health insurance

29  
How to evaluate the demand was the question in Working Group 10



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# Agenda

## Day 2/1

### 23 November 2006

09.00–10.30	<b>Panel 4</b> <b>Commercialising insurance for the low-income market: Role of regulators, policy makers and insurance/reinsurance companies</b>	<u>Jonathan Dixon</u> National Treasury, South Africa <u>Robert Gordon</u> AIG, South Africa <u>Andreas Kleiner</u> Head of Munich Re of Africa, South Africa Facilitator <u>Jeremy Leach</u> FinMark Trust, South Africa
10.30–11.00	Coffee break	
11.00–12.00	<b>Parallel sessions</b> <b>Thematic working groups</b>	
	<b>WG 9</b> <b>Demand</b>	<u>Monique Cohen</u> Microfinance Opportunities, USA <u>Lemmy Manje</u> ILO, Zambia
	<b>WG 10</b> <b>Managing microinsurance schemes</b>	<u>Warwick Bloom</u> Hollard Life, South Africa <u>Denis Garand</u> Consultant, Canada <u>Gerry Noble</u> Microcare, Uganda
	<b>WG 11</b> <b>Regulation, supervision and policy</b>	<u>Arup Chatterjee</u> IAIS, Switzerland <u>Martina Wiedmaier-Pfister</u> Consultant to GTZ, Germany <u>Brigitte Klein</u> GTZ, Germany
	<b>WG 12</b> <b>Marketing</b>	<u>Vijay Athreye</u> TATA-AIG, India <u>Craig Churchill</u> ILO, Switzerland
12.00–13.30	Lunch	

## Panel 4

# Commercialising insurance for the low-income market: Role of regulators, policy makers and insurance/reinsurance companies

### Panelists

Jonathan Dixon  
National Treasury,  
South Africa

Robert Gordon  
AIG, South Africa

Andreas Kleiner  
Head of Munich Re of Africa,  
South Africa

Facilitator  
Jeremy Leach  
FinMark Trust,  
South Africa

### In South Africa

microinsurance is already on the map, though focused on funeral insurance;

the Financial Sector Charter holds great potential;

collaboration among domestic stakeholders, coupled with the sharing of experiences made internationally, is yielding a sustainable commercial microinsurance market.

30  
Left to right:  
Jonathan Dixon,  
National Treasury,  
South Africa;  
Robert Gordon,  
AIG, South Africa

31  
Left to right;  
Andreas Kleiner,  
Munich Re of  
Africa, South  
Africa;  
Jeremy Leach,  
FinMark Trust,  
South Africa

32, 33  
David Dror,  
Erasmus Univer-  
sity Rotterdam,  
the Netherlands  
and Ellis Wohlner,  
Consultant to  
SIDA, Sweden,  
challenging  
the speakers of  
Panel 4

The road out of poverty necessitates increasing incomes, building assets and managing risks. Risk is a vital element of a broader development strategy.

However, emerging markets imply an enormous economic potential: 86% of the world's population is in them – including China (1.3 billion) and India (1.1 billion). Despite this, they account for only 23% of global GDP. In 2003, they accounted for a mere 10% of worldwide non-life premiums and only 11% of life premiums.

Internationally, microinsurance generally tends to grow out of credit, but in South Africa it has grown out of funeral insurance.

Risk-management techniques include: self-insuring, pooling through insurance, and using reinsurance.

An estimated 25–35% of South Africans are members of a burial society, and 7–15% have funeral insurance. In South Africa, regulation for funeral savings and risk vehicles is antiquated and cumbersome, and a formal insurance licence is burdensome.

The policy maker's dilemma is: will financial inclusion undermine systemic stability, market efficiency and consumer protection?

The South African approach is a voluntary industry transformation through a Financial Sector Charter. Access to finance is defined in terms of: low-income market group, physical access (within a physical radius of low-income communities), appropriate products (meeting needs of low-income clients), and affordability. And a prime objective of the reforms is to simplify, harmonise and close gaps in the legislation and regulations covering microinsurance (particularly funeral assistance business) activities.

There are policy trade-offs: new entrants hold the potential of volatility, but development and stability depend on competition and access to financial services; access may entail exposure to "risky" products, which makes it necessary to ensure that sufficient consumer protection and safety nets are in place, and that costs are not excessive.

In India, where industry outreach to the rural sector is legislated, is financial inclusion affordable and has it come at a cost to consumers? South Africa's industry-led voluntary compliance with the Charter to improve low-income access is in contrast to India's "big stick" approach, but is it in effect "a wolf in sheep's clothing"?

Microinsurance solutions need to focus on the poor's priorities:

- Sustaining sources of livelihood; securing food, shelter and clothing
- Surviving natural disasters
- Maintaining the health of the breadwinner

Coverages to meet these needs include:

- Life/health (loss of life, critical illness, sickness)
- Property (agricultural productivity and returns)
- Loss of assets generating income



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## Panel 4

Commercialising insurance for the low-income market: Role of regulators, policy makers and insurance/reinsurance companies

High exposure to natural hazards as well as a high vulnerability is a major problem common to many emerging markets.

#### What (re)insurers can do:

Provide global expertise in risk sharing

Develop a statistical base for pricing

Conduct research on demand

Introduce measures to contain climate change and reduce the impact of catastrophes

Form partnerships with direct microinsurers

Reinsurance is a business-to-business model protecting peak risks. Individual financial exposures are low, and direct microinsurers can retain these on their own balance sheets. Generic reinsurance demand from microinsurance is for accumulation risks, mainly natural catastrophes.

To play a meaningful role in microinsurance, insurers and reinsurers should expand the value chain by adding value such as global expertise and resources, intrinsic local-market knowledge, pricing capabilities and risk sharing.

Microinsurance must be commercially viable; goodwill alone is not enough to make microinsurance sustainable. Therefore, two principles governing entry into the low-income market are: can the insurer write enough premium in a given time to justify the effort, and can it generate enough profit to meet the business criteria?

The low-income market should be segmented into three groups:

- 1 Casual or seasonal workers in the informal economy without formal housing
- 2 Those with very low regular employment incomes and with basic formal housing
- 3 Those with varying amounts of disposable income who can afford housing and transport

There may also be a need to segment the market by gender to protect women, for example, when claim payments may be used by the husband's family.

The second and third categories can be addressed to penetrate the market and insurers are targeting them with credit insurance and funeral insurance. The big challenge is the first segment, where payment of premiums often competes against basic necessities such as food. Access to individuals is difficult and service costs extremely high.

For this first or "bottom-of-the-pyramid" segment, regulators should consider integrating the requirements of life and non-life lines so that a new microinsurance category can be sold as a line of business by both types of companies.

They should also amend the insurance law to monitor and control entities carrying insurance risk outside current legislation, and change consumer regulation where needed to allow MFIs to provide compulsory insurance schemes for borrowers. In addition, access to potentially harmful products can be prevented by introducing some parameters for product design. However, in many cases one should not forget that there is a skills and capacity constraint in regulation, and that enforcement is a key issue of concern.

#### For low-income markets,

the challenge is insuring the segment in which premium payment competes with necessities such as food;

regulators should integrate life and non-life requirements, creating a new microinsurance category.



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## Parallel sessions Thematic working groups

### Demand

Vijay Athreye

TATA-AIG, India

Warwick Bloom

Hollard Life, South Africa

Arup Chatterjee

IAIS, Switzerland

Craig Churchill

ILO, Switzerland

Monique Cohen

Microfinance Opportunities,  
USA

Lemmy Manje

ILO, Zambia

Denis Garand

Consultant, Canada

Brigitte Klein

GTZ, Germany

Gerry Noble

Microcare, Uganda

Martina Wiedmaier-Pfister

Consultant to GTZ, Germany

Sometimes women have claims payments sent to a trusted friend so they cannot be used by the husband in ways that do not benefit the family. It may also be possible to structure a claim payment as an in-kind benefit, if the client prefers.

Economic stress can be caused by a number of events in varying degrees. A demand survey in Zambia found that for the poor, death and illness produced a high level of stress, education fees and rentals a medium level, theft and fire medium, and weddings and births low.

The survey also found that potential microinsurance clients used three kinds of coping mechanisms:

- Social assets, mainly social networks, largely based on reciprocity
- Physical assets such as household items that could be turned into cash
- Financial assets, for example savings under the mattress, savings clubs, and money lenders who charge high interest rates but provide quick access

For all coping mechanisms, the strengths and limitations and the poor's preferences must be determined. In practice, most people can afford only one coping strategy – for example, in poor communities in the developing world, people say they have a hard enough time paying back their loans, let alone an insurance premium.

USAID has developed a 52-page publication called Guidelines for Market Research on the Demand for Microinsurance (accessible as a conference document on the conference website). The study provides donors and technical service providers with a framework for designing market research for microinsurance. It is a step-by-step guide to a process which will generate information that can be used to determine the attributes of a new microinsurance product, refine those of existing products, and identify ways microinsurance might be best delivered.

Questions to ask to assess demand for a microinsurance product:

- What is your greatest fear?
- Do you have assets, things you own?
- What natural disasters do you fear?
- How much are you prepared to pay to cover your biggest fear?
- What are your healthcare costs on a monthly basis?
- What are your demands? (Do not ask for needs – everyone has many needs.)
- What have been your shocks?
- Assess the weights/rankings of financial shocks and pressures.
- How do you manage shocks?
- Which shocks will work for insurance (for some you use family savings, for some you use credit, and some are appropriate for insurance)?
- What is the family profile – what type and amount of cover would suit it?
- How would you like to pay premiums?
- How would you like claims to be paid?

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How to evaluate the demand was the question in Working Group 10, led by Monique Cohen, Microfinance Opportunities, USA (centre)

35  
Lemmy Manje, ILO, Zambia

36  
Left to right: Denis Garand, Consultant, Canada; Warwick Bloom, Hollard Life, South Africa; Gerry Noble, Microcare, Uganda

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Left to right: Martina Wiedmaier-Pfister; Consultant to GTZ, Germany; Brigitte Klein, GTZ, Germany; Arup Chatterjee, IAIS, Switzerland



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## Managing microinsurance schemes

A key to sustainability is striking, and maintaining, a balance among coverage, operating costs and affordability. And that involves four principal strategies:

- Limit benefits
- Focus on efficiency
- Diversify income sources
- Good management

Ways of limiting benefits are to start with credit life, cap benefits, target benefits, and focus on big-ticket items.

To achieve efficiency, use low-cost premium payment methods, rely on inexpensive distribution systems, control costs, and buy benefits in bulk. Steer away from working with cash as this is expensive; rather, use an MFI and other partners to assist with collection. Often it is better to work with a community or group and not with individuals as this contributes to keeping the cost low. VimoSEWA, for example, increased its outreach and sustainability considerably by holding rolling campaigns in communities to enrol groups of people.

Income sources can be diversified by cross-subsidising, augmenting income with that from other products or markets, using an endowment fund to subsidise the product and operations, and by accessing government subsidies.

**Good management** means leading a disciplined organisation, benchmarking, and owning the risk.

Control is very important.

Appropriate technology can be used to implement these controls.

## Regulation, supervision and policy

The IAIS-CGAP Joint Working Group on Microinsurance, set up in February 2006, has drafted an Issues Paper on the regulation and supervision of microinsurance.

Recognising that microinsurance activities should not be held to supervisory standards lower than those for mainstream insurance, the paper focuses on prudential, governance, market-conduct and operational issues. It identifies areas where the IAIS Insurance Core Principles criteria can be customised to the regulation and supervision of microinsurance.

The paper reviews some microinsurance scenarios and suggests what needs to be done: funeral and health insurance based on associations, mutuals or friendly societies requires oversight by insurance supervisors; credit life products developed by MFIs require formalisation or linkage with insurers; and products for poor customers developed by commercial insurers require regulatory adaptations.

A few emerging markets have specific laws or regulations to encourage microinsurance. India has microinsurance agent regulations to link formal insurers with village-based NGOs and MFIs. The Philippines has introduced mutual benefit associations (MBAs) as microinsurance institutions under the Insurance Law, supervised by the Insurance Commission. And in Brazil the supervisory authorities have created both a life group microinsurance product and an automobile microinsurance product.

The paper reaches a number of conclusions. Small adjustments to the mainstream regulatory framework may serve better to increase access than creating a “parallel universe” of specialised regulation (e.g. a new tier). “Microinsurance regulation” is not one topic, but a range of topics, depending on the type of loss insured and the distribution channel used. In microinsurance, it is the “credibility of the market” argument that motivates transformation and prudential regulation and supervision.

The paper recommends nine steps supervisors can take to adapt regulations for promoting microinsurance; for example, seeking a political mandate and financial support from their authorities, strengthening their microinsurance capacities, and south-to-south dialogues with other supervisors.

**The IAIS-CGAP Joint Working Group says:**

“Microinsurance regulation” does not necessarily mean an entirely separate regulatory framework.

Regulation of microinsurance is complex, involving many different issues and market players.

Microinsurance regulation aims foremost at consumer protection enhancing financial inclusion.





Parallel sessions  
Thematic working groups

Marketing

In the low-income market, most potential customers are unfamiliar with insurance and often confuse insurance with savings. Even those who know insurance may already have had a bad experience with it. They may also not be conversant with financial planning, and lack disposable income to buy peace of mind – instead living day to day without thinking about risk or risk management. Illiteracy and a lack of banking, transport and communications infrastructure compound the marketing challenge.

Microinsurers often use a combination of four main messages – protection, solidarity, optimism and trust – in a three-step marketing process: raise awareness (about insurance and the specific insurer), cultivate an understanding of insurance, and activate the market.

Loss prevention campaigns, branding (logos, tag lines), and public relations (corporate sponsorship) are helpful in raising awareness.

To cultivate an understanding of insurance, provide staff with appropriate resources (e.g. brochures, pictorial presentations, FAQ sheets), design simple products that are easier to explain, provide sales training for front-line staff and encourage them to buy insurance as well, use local concepts, and consider diverse communication channels.

To activate the market, use enrolment campaigns, testimonials and promotions (raffles, lotteries). An additional technique that can be effective is to set moderate sales targets and balance sales commissions with re-enrolment incentives.

Marketing lessons from TATA-AIG

A microinsurance operation requires top-management and regulatory commitment to get established in the market.

Target market awareness is best built through livelihood-based grassroots capacity-building.

Relevant, affordable products are key to changing prospects into customers.

Technology innovation is essential to keep servicing costs down.

Commercial viability in micro-insurance is facilitated by the development sector's involvement and support.



# Agenda

## Day 2/2

### 23 November 2006

13.30–14.30	Parallel sessions Thematic working groups	
	WG 13 Product design	<u>David Dror</u> Erasmus University Rotterdam, the Netherlands  <u>Dominic Liber</u> Quindiem Consulting, South Africa
	WG 14 Organisational development	<u>Craig Churchill</u> ILO, Switzerland  <u>Shadreck Mapfumo</u> Opportunity International, Malawi
	WG 15 Premium collection	<u>Grzegorz Buczkowski</u> TUW SKOK, Poland  <u>Ellis Wohlnert</u> Consultant to SIDA, Sweden
	WG 16 Claims payments	<u>Agnes Chakonta</u> Madison Insurance, Zambia  <u>Denis Garand</u> Consultant, Canada
14.30–15.00	Coffee break	
15.00–16.30	Panel 5 Beyond life and health: Microinsurance innovations	<u>Shadreck Mapfumo</u> Opportunity International, Malawi (Drought insurance for Malawi)  <u>Reinhard Mechler</u> IIASA, Austria (Can microinsurance work in natural disasters?)  <u>Leila Moonda</u> SAIA, South Africa (Corporate non-life microinsurance products)  Facilitator <u>Thomas Loster</u> Munich Re Foundation, Germany
16.30–17.30	Wrap-up discussion and closing remarks	
17.30	End of conference	

## Parallel sessions Thematic working groups

### Product design

Grzegorz Buczkowski  
TUW SKOK, Poland

Agnes Chakonta  
Madison Insurance, Zambia

Craig Churchill  
ILO, Switzerland

David Dror  
Erasmus University Rotterdam,  
the Netherlands

Denis Garand  
Consultant, Canada

Dominic Liber  
Quindiem Consulting,  
South Africa

Shadreck Mapfumo  
Opportunity International,  
Malawi

Ellis Wohlner  
Consultant to SIDA, Sweden

Choice is important. People will not pay for what they cannot choose. They want insurance for their biggest expenses – they will not pay for insurance that provides cover for things they do not want.

Hospitalisation is an example of this: people do not want to go to the hospital where often rates of infection and complication are higher than home treatment; they want coverage for medicine, which is where they spend the largest portion of their cash.

The three criteria to assess effectiveness of choices are reimbursement, fairness and catastrophic events (outlier cases and coverage).

The key is a group process and group participation in product design. The poor know what they want and they need a voice in the design of microinsurance products. If design matches client demand, then sales are greatly facilitated.

At the end of a participatory product design activity in India, villagers immediately demanded to buy the product they had just designed through the exercise.

Such activities could be partnered with insurance providers so actual insurance products could be designed, marketed, and sold following the participatory approach. They can be actuarially sound and reflect real prices and costs of risk (prevalence, distribution of risks, and the cost of alternative benefit packages).

Illiterate people are able to design relevant products when given a chance to define the risks of greatest concern and when they are facilitated in explaining the costs of perils in terms of their livelihoods (willingness to pay). This process results in proxies that are useful in designing and pricing microinsurance products.

The participatory approach is also important for risk pooling and for addressing the issue of adverse selection.

In the exercise in India, different insurance product demand outcomes were observed when people designed the product alone (such as through a questionnaire) and when they participated in the group process. In the individual process, for example, the demand for maternity cover was lower than when the group designed its own product. In the latter case, women and their children played the game and chose 100% cover for maternity risks, presumably a result of group solidarity.

Insurers are worried about adverse selection, but people do not cheat the group they network with to survive. This is especially true for the poor in rural areas. There is a strong flow of information at the local level. Gossip is a powerful business tool and it is how groups shape conduct – which in turn is important for adverse selection and moral hazards. The issue of information cost is about reaching the village level because that is where product designers must go to shape appropriate products.

For low transaction costs, keep the product simple and limit choices of cover.

#### Group participation is the key.

People will not pay for what they cannot choose.

Participating as a group in product design, they make better choices than when asked individually.

The participatory approach also addresses risk pooling, adverse selection and moral hazards.



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## Organisational development

From the microinsurance perspective, organisational development involves five factors:

- Organisational structure (where does microinsurance fit in?)
- Recruitment (whom do you hire?)
- Training (how do you provide them with sufficient skills?)
- Compensation (how do you reward them?)
- Institutional culture (how do you strike the microinsurance balance?)

One point to consider in the organisational structure is whether to use specialists or generalists on the front line. In diverse organisations, a specialised department is needed for microinsurance in the back office. TATA-AIG and VimoSEWA both serve as good examples of such a structure. The role of outsourcing is also worth considering, as demonstrated by TUW SKOK.

Choices to be made in recruitment involve the use of policyholders as agents in the front line (e.g. CARD, TATA-AIG), and the balance of technical and development expertise in the back office.

Training is not a one-off exercise. Back-office and frontline skills need to be continuously updated. If staff do not understand insurance and are not sufficiently familiar with the products, policyholders will not understand them either. Front-line training is overlooked, particularly with mandatory products.

In terms of compensation, a number of questions need addressing.

- Are there alternative incentives for the front line to commissions, which may just increase the cost of insurance to the customer?
- How do you ensure the front-line representatives pay sufficient attention to insurance sales and services when these are not their primary responsibilities?
- How do you deal with the huge risk of mis-selling in providing an unfamiliar product to an uneducated market?
- For voluntary insurance, how do you reward staff for achieving greater outreach without pushing insurance on people?

The institutional culture in microinsurance should strive to achieve social and commercial objectives. How can this culture be used to minimise staff turnover? And, in a diverse organisation that serves both the not so poor and the poor, how do you ensure that the poor market gets sufficient attention?

To build trust and overcome scepticism in a lukewarm low-income market, microinsurers should focus on relationship-building, after-sales service, fast claims processing, and minimising claims rejections.

#### Elements of organisational development and their role

##### Structure

Accommodate microinsurance.

##### Recruitment

To acquire skills needed.

##### Training

Keep skills relevant.

##### Compensation

Reward approaches sensitive to needs of the low-income segment.

##### Institutional culture

Ensure ongoing attention to poor customers.

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Dominic Liber,  
Quindiem  
Consulting, South  
Africa

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David Dror,  
Erasmus Univer-  
sity Rotterdam,  
the Netherlands

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David Dror,  
Erasmus Univer-  
sity Rotterdam,  
the Netherlands,  
explaining the  
importance  
of participants'  
satisfaction

42, 43  
Shadreck  
Mapfumo, Oppor-  
tunity Interna-  
tional, Malawi  
(left), and Craig  
Churchill, ILO,  
Switzerland,  
explaining the  
elements of  
organisational  
development  
and the roles  
these play



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Parallel sessions  
Thematic working groups

Premium collection

Flaws in the premium-collection process may endanger the entire insurer-customer relationship. The process has four key elements: collection modes, frequency and timing, client considerations, and collection controls.

Four major premium collection modes are:

- Piggy-backing premiums by linking them to loans or other transactions
- Deducting premiums from customer accounts
- Paying premiums from account interest
- Actual physical collection (door-to-door, for example)

Two other options are to include the premium in other economic transactions (besides loans) or in a membership fee of some kind.

While the first three modes involve low transaction costs, they presuppose the existence of some form of banking or other accounts. Direct physical premium collection is expensive, but achieves strong penetration in areas with limited banking or commercial infrastructure, where it may be the most realistic and practical option. Additional options include group-linked collection via community leaders, churches or savings cooperatives, and working with local or corner-shop retailers with dedicated premium collection equipment.

Frequency and timing choices should involve sensitive understanding of client preferences and capabilities. While providing a number of choices reduces the likelihood of cancellation/default, it increases insurers' direct costs – and corresponding costs to clients. Choices should not include highly flexible time frames. The payment of a premium before policy activation is a necessary condition of cover. All premium due dates are dates by which (not on which) premiums are due. For example, if the due date is 15 March, the insurer must have been paid the premium before the 15th so the policy can be effective on the 15th.

Three major client considerations are: providing flexibility in premium financing, achieving simultaneous objectives of affordability and efficient collection, and ensuring that renewal and lapse processes are more flexible than those provided for commercial clients. Late premium payers should be penalised in some fashion, as premiums are calculated on the basis of their being paid on time.

Fraud is a major threat in premium collection, necessitating tight controls from the product design stage. Horizontal controls (where responsibility for premium collection is spread across the group) and vertical controls (where the insurer is responsible for supervision and audit) are both crucial.



## Claims payments

Realistically, it is still not possible to design an effective mechanism to reach every potential client. There will always be people that cannot be reached efficiently to distribute individual microinsurance products. For people far from formal banking and commercial infrastructure in particular, group-linked insurance is significantly more robust and efficient.

#### Four elements of premium collection:

Collection modes (e.g. linking premium to another transaction)

Frequency and timing (must be sensitive to client preferences and capabilities)

Client considerations (flexibility in financing)

Collection controls (to curb fraud)

MFIs need to understand the importance of the submission of claim documents for quick settlement of claims. Loan officers should give the same attention to the provision of documentation as to the collection of premiums.

Aside from insufficient documentation, major causes of claim rejection are misinformation about the product parameters and fraud.

Educating staff and clients about benefits covered by the product and the claims settlement process is key to improving service.

Helping clients understand, for example, how the sickness cover works for the benefit of all would help reduce the fraudulent tendencies of some.

Insurers should aim at reducing the time taken to settle a claim by being more flexible in the documentation requirement, and by assessing each case on its own merits – taking into account the small values involved.

Where documentation is difficult, they should accept alternative evidence. And where practical, they should issue payments to beneficiaries directly instead of MFIs.

Microinsurers should simplify the claims work process and computerise functions. Sometimes, removing exclusions simplifies and accelerates claims settlement. A complicated product and cumbersome process add to the cost of insurance.

Any claim rejections must be explained to the community, to prevent damage to the product's credibility.

In health insurance, it is important to ensure quality care.

#### Tips on claims

Simplify documentation and process.

Educate MFI staff and clients about how claims are settled.

Explain rejections to community.

45  
Agnes Chakonta,  
Madison Insurance,  
Zambia

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Denis Garand,  
Consultant,  
Canada



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## Panel 5

Beyond life and health:  
Microinsurance innovations

## Speakers

Shadreck Mapfumo  
Opportunity International,  
Malawi  
(Drought insurance  
for Malawi)

Reinhard Mechler  
IIASA, Austria  
(Can microinsurance work  
in natural disasters?)

Leila Moonda  
SAIA, South Africa  
(Corporate non-life  
microinsurance products)

## Facilitator

Thomas Loster  
Munich Re Foundation,  
Germany

Insurance serving the poor can be in four scales with different impacts and solutions: micro, meso, macro and other.

The micro scale is most widespread and focuses on health, life (funeral) and low-end property and crop (home, plough, boat) insurance.

The focus of the meso scale can be serving larger groups of people. The products are derivatives and index insurance: weather and drought so far, mostly established in the developed world but the first index in Ethiopia is expected to lead to others in the poor countries.

At the macro scale are cat bonds, which cover storms, floods and earthquakes, but are only available in the developed world at present. Examples in the other category are pools and funds such as the Turkish Catastrophe Insurance Pool and the Climate Adaptation Fund.

Looking beyond life and health, we will need to take the micro scale and touch the higher scales – integrating the new challenges with the basic covers. The core principle of spreading risk would continue to apply: a good portfolio spread over a few regions would, for example, serve as a foundation for protection against a tsunami.

In 2004, the South African Insurance Association (SAIA) started developing a no-frills product called Mzansi that would be “accessible and affordable” for low-income groups – covering the dwelling, household goods and personal effects against fire, lightning, explosion, storm, flood, impact and theft (sudden and accidental events). To date, one company has introduced this product, with more companies expected to follow in 2007.

The target market is 70% of the population – the very poor. Repeated fires make hundreds of these people homeless every week. Thefts of household belongings are also frequent – the most stolen items are pots and pans. Literacy is a big problem, and there can be no applications in writing. These people have no regular incomes and can make no regular payments.

Access is not the only barrier. The first obstacle to the Mzansi initiative was regulatory. A standard product wording – not acceptable to the Insurance Commission on account of undermining competition – had to give way to a set of minimum standards which various companies could use to develop their own products. Other challenges being addressed are: changing legislation to allow lower-level intermediaries to sell microinsurance products; education to enable consumers to understand short-term insurance, e.g. training teachers to teach financial literacy in schools; and alternative distribution channels such as retail stores.

A weather index-based crop insurance pilot scheme started in Malawi by Opportunity International for 800 farmers now has 1,800 enrolled. They are smallholder farmers in clubs of ten to 20 members with joint liability for loan repayment, who live within 20 km of one of five Class A weather stations.





## Panel 5

Beyond life and health:  
Microinsurance innovations

## Microinsurance needs to be scaled up to higher levels of risk management.

Other stakeholders are the two financing banks, the Insurance Association of Malawi as the insurer, three suppliers of seeds and fertilisers, and Malawi National Met Services, which supplies rainfall data.

The project processes include a credit history check and if a loan is not repaid two years in a row, farmers are blacklisted. There are crop inspections to help prevent claims for drought.

Poor seed germination, late sowing and the variance between the guaranteed price and the market price are among the scheme's challenges and risks.

Such index-based schemes have demonstrated their value in securing farmers' livelihoods, improving their creditworthiness, and facilitating disaster recovery. Nonetheless, in the face of large covariant losses and the need to reduce the immediate toll of disasters, the long-term viability of these programmes is in question.

Microinsurance is only viable to the extent that the providers remain solvent following large-scale losses. If microinsurers with limited resources choose to indemnify large covariant and recurring risks, they must guard against insolvency by diversifying their portfolios geographically and transferring risks to the global reinsurance markets.

Public-private alliances are also needed to create partnerships and institutional frameworks that may serve as safety nets for high-risk poor communities.

For disaster microinsurance to work, the current pilot and fledgling programmes need to be scaled up. Ideas considered should also include creating warehouses for livestock, bundled products to cover health, life and weather-related perils, and a global index security scheme.

Pooling is demonstrated as a fair and effective tool and holds substantial promise. It is a basic insurance concept. Looking beyond life and health, we need to think in terms of a "Volks-wagen" of natural disaster microinsurance schemes, and not get dizzy looking at sophisticated "Rolls-Royce" approaches.

The disaster risk management community – including reinsurers – has little understanding of microinsurance. To bridge the gap, the ProVention Consortium – a global coalition of international organisations dedicated to reducing the impact of disasters in developing countries – proposed in February 2005 to establish an international task force on risk transfer and its potential for developing countries. This includes microinsurance and risk-transfer experts, disaster-risk researchers, and representatives of civil society, governments and donor institutions.

### Eyeing the future

Short-term insurance based on the South African Mzansi model can meet real needs.

The weather index-based crop insurance pilot in Malawi has proved practical.

Pooling is an effective and promising tool to help manage risk of natural disasters.

A global task force should explore risk transfer for microinsurance.

48  
Zahid Qureshi,  
Consultant, Canada;  
head of the  
rapporteurs team  
at the Microinsur-  
ance Conference  
Report 2006

49  
John Pott, Aga Khan  
Development Net-  
work, Switzerland

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Alesia Rodríguez,  
Cámara de  
Aseguradores de  
Venezuela (CAV)

51  
Aude de  
Montesquiou,  
CGAP, France



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## Participating organisations

ADA (Appui au Développement Autonome), Luxembourg	IIASA, Austria	PEP, a division of Pepkor Retail Ltd., South Africa
African Development Insurance Company Limited, Nigeria	ILO/STEP, Switzerland	PKSF, Bangladesh
African Life Assurance, South Africa	ILO Zambia, South Africa	PlaNet Finance, France
AIG South Africa, Ltd., South Africa	Insurance Commission, Philippines	Quindiem Consulting, South Africa
Barnert Global, Ltd., USA	Insurebynet Ghana Limited, South Africa	Real People, South Africa
Blue Financial Services Ltd., South Africa	International Association of Insurance Supervisors, Switzerland	RGA Reinsurance Company, South Africa
BRS – Belgian Raiffeisen Foundation, Belgium	International Cooperative and Mutual Insurance Federation, United Kingdom	RIMANSI, Philippines
Cámara de Aseguradores de Venezuela (CAV), Venezuela	International Development and Communication Services Inc., Canada	SA Eagle Insurance Company Limited, South Africa
Catholic University of Leuven, Belgium	International Finance Corporation, USA	South African Federation of Burial Societies (SAFOBS), South Africa
CGAP, USA	International Fund for Agricultural Development, Italy	Safcam Underwriting Managers (Pty) Ltd., South Africa
Constantia Insurance Company Ltd., South Africa	Just Good Business, Zambia	Santam, South Africa
Cre8 Alexander Forbes, South Africa	Kenya Ecolof, Kenya	SDT, South Africa
Cruzsalud, Caracas, Venezuela	Kwaaiwater Investments, South Africa	SEF-LIFE Trust, South Africa
Customer Protection Insurance Company Ltd., South Africa	Liberty Life, South Africa	Seguradora Internacional de Moçambique, Mozambique
Denis Garand and Associates, Canada	Madison Insurance, Zambia	Shiekan Insurance and Reinsurance Co. Ltd., Sudan
Die Burger, South Africa	Metropolitan Life, South Africa	Sida – Swedish International Development Cooperation Agency, Sweden
East African Underwriters Ltd., Uganda	Microcare, Uganda	Socremo – Banco de Microfinancas, Mozambique
Erasmus University Rotterdam, the Netherlands	Microfinance Opportunities, USA	South African Insurance Association, South Africa
Federation Nationale Mutualité Française, France	Microhealthinsurance-India.org, Switzerland	Surety Fund, USA
Financial Services Board, South Africa	Microinsurance and Remittance Research Centre, United Kingdom	Swedish Cooperative Centre, Kenya
FINCA International, USA	Ministry of Finance, Kenya	TATA AIG Life Insurance Company Ltd., India
FinMark Trust, South Africa	Momentum, South Africa	Aga Khan Agency for Microfinance, Switzerland
Folksam, Sweden	MS Life Assurance, South Africa	The Best Funeral Society, South Africa
FOS Belgium, Belgium	Munich Re/Munich Re of Africa, Germany	The Co-operative Insurance Company of Kenya Limited, Kenya
Foyer, Luxembourg	Munich Re Foundation, Germany	Legon Financial Services Group, USA
FSD Kenya, Kenya	Mutual & Federal Insurance Company Limited, South Africa	The Life Offices' Association of South Africa, South Africa
Genesis Analytics, South Africa	National Treasury, South Africa	TUW SKOK, Poland
Gerhardt Consulting, Germany	Old Mutual, South Africa	UNIC Insurance plc., Nigeria
Great North Burial Society, South Africa	Old Mutual Group Schemes, South Africa	United Nations University, Germany
GTZ, Germany	Opportunity International Network, Malawi	University of Lyon, France
Guardrisk Insurance Company Limited, South Africa	OUTsurance Insurance Company, South Africa	University of Cape Town, South Africa
Hannover Life Re Africa Ltd., South Africa		University of Johannesburg, South Africa
Hollard Insurance, South Africa		Zurich Financial Services, Switzerland

## Acronyms

### AIG

American International Group

### ATM

Automated teller machine

### BOP

Bottom of the pyramid

### CGAP

Consultative Group to Assist the Poor

### CUNA

Credit Union National Association

### GDP

Gross domestic product

### GNBS

Great North Burial Society

### GTZ

Deutsche Gesellschaft für Technische Zusammenarbeit (German Agency for Technical Cooperation)

### IAIS

International Association of Insurance Supervisors

### IIASA

International Institute for Applied Systems Analysis

### INR

Indian rupee

### ILO

International Labour Organization

### MBA

Mutual benefit association

### MFI

Microfinance institution

### MIU

Micro health insurance units

### MIS

Management information system

### MUSCCO

Malawi Union of Savings and Credit Cooperatives

### NEL

New Era Life

### NGO

Non-governmental organisation

### Q&A

Question and answer

### SA

South Africa

### SAIA

South African Insurance Association

### SIDA

Swedish International Development Cooperation Agency

### STEP

Strategies and Tools against Social Exclusion and Poverty

### TUW SKOK

Mutual Insurance Company of Cooperative Savings and Credit Unions

### US\$

United States dollar

### ZAR

South African rand

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According to recent research from the  
MicroInsurance Centre, fewer than 3% of  
poor people in the poorest 100 countries  
have formal insurance of some sort.

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