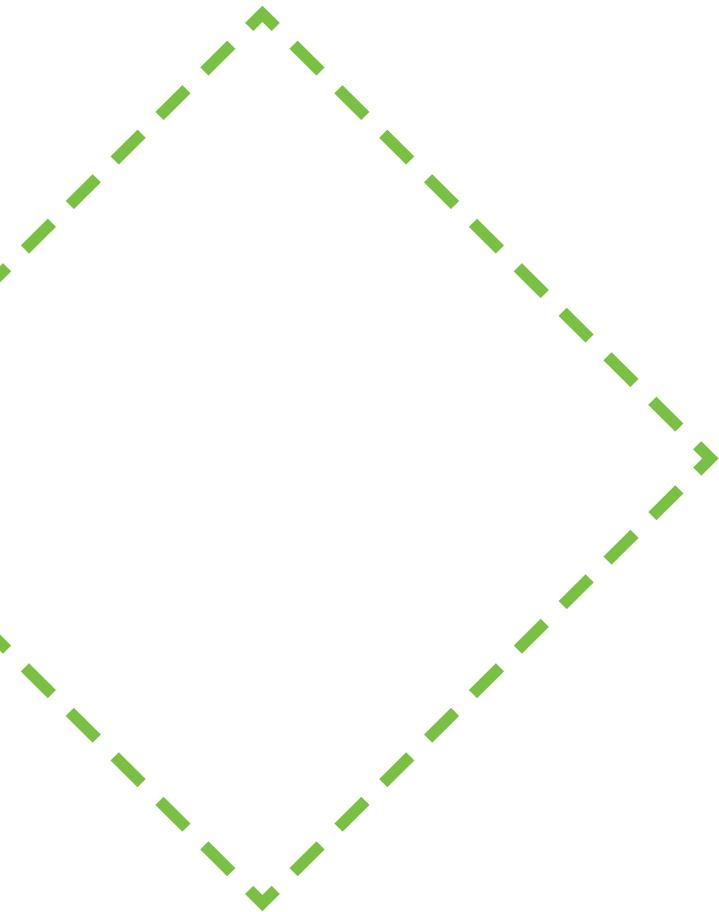

Report

5th International Microinsurance Conference 2009

Making insurance work for the poor



3–5 November 2009
Dakar, Senegal

Edited by
Zahid Qureshi and Dirk Reinhard

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Acknowledgements

This report is the summary of the 5th International Microinsurance Conference that took place in Dakar, Senegal, on 3–5 November 2009. The International Microinsurance Conference is jointly hosted by the Munich Re Foundation and the Microinsurance Network. This year's conference was supported by the Conférence Inter-africaine des Marchés d'Assurances (CIMA), the African Insurance Organisation (AIO), the Fédération des Sociétés d'Assurances de Droit National Africaines (FANAF), the World Bank, the "Journal of Risk and Insurance", the German Association for Technical Cooperation (GTZ) on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ) and the International Labour Organization (ILO).

On behalf of the organisers, we would like to thank members of the conference steering committee. Many of them have volunteered to shape the conference since it took place for the first time in 2005. Without their work to identify suitable speakers and presentations from the long list of 150 submissions for speeches that were received during the preparations for this conference, this event would not be possible.

After 2006 in South Africa, the 2009 conference took place in Africa for the second time and for the first time in a francophone country. Though it is an international forum and platform for experts from all over the world, local knowledge of the host-country and the region is crucial for the success of the conference. Without this, the event would most probably fail to attain one of its goals, which is to increase the commitment of local regulators and the local insurance industry. We would

therefore especially like to thank Christine Bockstal, Olivier dit Guérin and Céline Félix, as well as staff of the ILO in Senegal working behind the scenes. A very warm "thank you" goes to Charles Dan, for his keynote speech setting the stage for the 5th International Microinsurance Conference as well as to Jean-Claude Ngbwa, General Secretary of the CIMA, and his colleagues for their outstanding support for this event. We would furthermore like to thank the President of the FANAF, Protais Ayangma Amang, and its General Secretary, Papa Ndiaga Boye, for building the bridge to the insurance industry in West Africa.

One of the key objectives of the International Microinsurance Conference is the sharing of experience across different continents and discussing current practices and lessons learnt. The many plenary discussions and parallel sessions would not have been possible without the contributions of over 60 speakers and facilitators from around the world. We would like to thank all of them for their willingness to share their knowledge. We would especially like to thank Richard Phillips and the "Journal of Risk and Insurance" for helping us reach out to the academic world. For the first time, we had organised special sessions to discuss scientific research on microinsurance. This was very well received and will therefore become an integral component of the conference. We would also like to thank the organisers of the session on regulation, supervision and policy as well as the session on performance indicators. Each provided an important set of key insights by a specific group of experts as well as discussing solutions to overcome existing barriers to microinsurance.

And our thanks go also to the more than 400 participants from 63 countries for contributing their comments and questions and making the discussions lively and thought-provoking. A conference of such magnitude needs a lot of people working behind the scenes. The organisation team – Martina Mayerhofer, Christian Barthelt, Stefanie Eicke, Angelika Einsiedler, Petra Hinteramskogler and Markus Heigl – again did an amazing job to organise a very special conference. Last but not least, we would like to thank the team of interpreters and team of rapporteurs – Ulrike Zirpel and Andrea Camargo – led by Zahid Qureshi, for helping us gather and document points made and lessons drawn in various sessions of the 2009 conference – as well as Brigitte Klein, Véronique Faber and Coralie Zaccar for their contributions to the report.

Dirk Reinhard – Vice-Chairman,
Munich Re Foundation

Craig Churchill – Chairman,
Microinsurance Network

1 — Craig Churchill, Chairman,
Microinsurance Network, ILO, Switzerland.

2 — Dirk Reinhard, Vice-Chairman,
Munich Re Foundation, Germany.



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Agenda

Day 1 morning sessions 3 November 2009

Pre-conference workshops

Speakers

Facilitators

Joint Microinsurance Network/IAIS policy seminar for regulators

Martina Wiedmaier-Pfister
Consultant to GTZ, Germany

Arup Chatterjee
IAIS, Switzerland

Regina Simoes
SUSEP, Brazil

Brigitte Klein
GTZ, Germany

Mustapha Lebbar
Ministry of Economy and Finance,
Morocco

Jean-Claude Ngbwa
Secretary-General, CIMA,
Gabon

Sammy Makove
Insurance Regulatory Authority,
Kenya

Josephine Amoah
National Insurance Commission,
Ghana

George Stephen Okoth
Insurance Commission, Uganda

Craig Thorburn
World Bank, USA

Performance indicators workshop

Maïssata Niasse
Initiatives SARL, Senegal

Véronique Faber
Microinsurance Network,
Luxembourg

Motaz Al Taaba
Alexandria Business Association,
Egypt

Denis Garand
Denis Garand and Associates,
Canada

Alioune Niasse
ASADEP, Senegal

Pre-conference

Policy seminar on access to insurance for insurance regulators and supervisors

By Martina Wiedmaier-Pfister,
Imke Gilmer, GTZ, Germany

The seminar was jointly organised by the Access to Insurance Initiative, the International Association of Insurance Supervisors (IAIS) and the Conférence Interafricaine des Marchés d'Assurances (CIMA). Furthermore German Technical Cooperation (GTZ) on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) and other organisations contributed to the seminar. It was hosted by the Munich Re Foundation and the Microinsurance Network. Over 80 participants representing insurance supervisory authorities from 26 countries participated in the policy seminar on access to insurance. Among those were 20 African supervisors.

Background

Financial sector policy reforms in many countries include insurance as an important pro-poor financial service. Microinsurance has tremendous potential for helping low-income households manage financial risks, for insurers and intermediaries to expand their markets, and for governments to rely on privately run insurance.

According to the CIMA, microinsurance is a big hope for Africa. African insurance markets are growing. Microinsurance coverage has grown threefold in the past three years in Africa. However, the bulk of microinsurance is credit-related and often compulsory. And the wide gap with developed insurance markets needs to be narrowed. A facilitating policy, regulatory and supervisory framework plays a crucial role in bridging this gap.

Making regulatory, supervisory and policy environments more conducive to the development of insurance is high on the agenda of the insurance supervisors who attended the policy seminar. These supervisors had the opportunity to share views on approaches followed in other countries, besides describing challenges their own jurisdictions are facing. As Africa has a large number of informal providers, and licensed insurers are increasingly interested in entering the low-income market, participants agreed that prudential norms need to be developed that facilitate low-cost, simple and transparent value-for-money products and services for this segment.

3, 4 — Arup Chatterjee (left), IAIS, Switzerland, and Brigitte Klein, GTZ, Germany, during the opening of the joint Microinsurance Network/IAIS policy seminar for regulators.



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Pre-conference

Policy seminar on access to insurance for insurance regulators and supervisors

The policy challenge

In a growing market characterised by new business models and new players, sound regulatory responses to protect consumers are of the utmost importance. Apart from the classic consumer protection role of regulators, some jurisdictions have taken on a market development role. According to them, policy, regulation and supervision help in building the foundation on which microinsurance can expand on a mass scale and in a sound manner.

Coherence in approaches in different policy areas and in regulations, within the financial sector and outside, creates a level playing field. Policy-makers and supervisors play a key role in influencing other financial sector authorities by helping them to increase their awareness and know-how. These include the central bank, and the ministries of finance, health, trade, agriculture and cooperatives. These authorities have often been found to know very little about the relevance of microinsurance. Often they are unaware of the key drivers and barriers or the good and bad practices in microinsurance. As the driving force, insurance supervisors can get these actors to join hands and take the lead in promoting microinsurance.

Policies and approaches to the regulation and supervision of insurance can also be viewed as non-conducive to the supply of insurance products and services appropriate for the low-income segments. The regulatory and supervisory requirements for insurance products may not be appropriate or proportionate to the size, nature and complexity of the risk or otherwise may not be supportive enough for the development of market-led mechanisms.

Box 1

Key success factors

Insurance supervisors and regulators are the key drivers in shaping a well-structured reform path that can lead to sound microinsurance market development. The key success elements are

- stakeholder dialogue with the industry;
- coalition building with other sector authorities such as the central bank and the ministry of finance;
- a country diagnostic to identify market potential and barriers in regulation, supervision and policies as a sound basis for action;
- consumer protection and financial literacy;
- financial sector policies that include microinsurance.



5 — George Stephen Okota, Insurance Commission, Uganda (front, right), one of the insurance regulators from about 20 countries attending the seminar.

Capacity development for insurance supervisors

To address these issues and improve access to insurance products, markets and services, it is essential to strengthen institutional and regulatory capacity. In addition, the regulatory and supervisory frameworks in jurisdictions interested in developing improved access to insurance should be consistent with international standards. At the seminar, representatives of the International Association of Insurance Supervisors (IAIS) emphasised its commitment to guide national insurance supervisors and regulators in their efforts to broaden access to insurance in their jurisdictions.

The Access to Insurance Initiative was introduced to the audience. The Initiative is a global programme of the IAIS, the BMZ, CGAP, FinMark Trust and the ILO to

- strengthen the capacity and understanding of insurance supervisors, regulators and policymakers;
- facilitate their role as key drivers in expanding access to insurance markets;
- support the implementation of sound policy, regulatory and supervisory frameworks consistent with international standards.

The goal of the Access to Insurance Initiative is to enhance broad-based, demand-oriented and sustainable access to insurance for low-income clients, thereby increasing financial inclusion in the insurance sphere. It is a global programme that seeks to partner national insurance supervisors and their regional networks. African insurance regulators and supervisors are highly important and are invited to partner the Initiative. More information on the Initiative can be found at www.access-to-insurance.org.

Example of Brazil

The Superintendence of Private Insurers (SUSEP) has been promoting microinsurance since 2003. The participation and engagement with the Joint Working Group of the IAIS and the Microinsurance Network was an important step in this process. Discussions among participants of this platform at different stages were instrumental in providing valuable inputs to the national reform process in Brazil.

In 2007 the Microinsurance Commission – an interdisciplinary working group led by SUSEP – was formed. It comprises policymakers from different government authorities, researchers and representatives of the industry and their networks. They commenced their work by defining microinsurance and the low-income market. The next task was to identify obstacles to microinsurance development. Some 90 insurance rules were examined. It was concluded that, with the exception of the legal nature of providers, the current framework does not present any significant obstacles – and is in fact flexible on issues in microinsurance supervision and regulation. The commission is now preparing the draft of a regulatory framework specifically designed for microinsurance, which requires that

- a specific licence for insurers to sell microinsurance be introduced;
- a special microinsurance broker be created;
- a microinsurance mediator be introduced to regulate the relationship between insurers, insurance consumers, and intermediaries.

Box 2

State of insurance in Africa

South Africa is the most developed insurance market on the continent. More than 90% of African insurance premiums are collected there. It has a high insurance penetration rate with premiums accounting for 15% of the GDP. The next highest penetration in Africa is in Morocco at just over 3%. The remaining countries, however, have very low penetration levels. Their insurance infrastructure – whether it is providers, distributors or service delivery mechanisms – is all in a developing stage only.

Box 3

Brazil reforms

There are some lessons learnt from Brazil's reform efforts for promoting microinsurance market development:

- Know your targeted population of microinsurance.
- Take cultural features into account.
- Involve the main stakeholders both from the public and private sectors in the process.
- Join the Joint Working Group of the International Association of Insurance Supervisors and the Microinsurance Network.

 Pre-conference

Policy seminar on access to insurance for insurance regulators and supervisors

Examples in Africa

Lessons from African countries in creating “enabling policies” for the development of microinsurance indicate that efficiency determines the frontier for access to insurance for the low-income population. Providers need to offer insurance at low cost to increase access. There is a need to be aware of the “regulatory drift” – in which complex regulations often lead to high regulatory costs for the insurance providers and drive insurers that want to cater to low-income segments into informality. A careful balance between the underwritten risk and the regulatory burden is therefore essential to lower the costs of insurance providers. Compliance with “know your customer” norms and anti-money-laundering regulations also impedes access to finance as well as access to insurance. Colombia is a good example of a country where exemption from the “know your customer” regulation for low-ticket contracts increased access to finance. Further “enabling policies” for microinsurance market development focus on consumer protection and encourage innovation and competition.

At the seminar, supervisors from Kenya, Ghana and Uganda were asked about regulatory challenges they face in their jurisdictions and steps they are taking to overcome them.

The Insurance Regulatory Authority of **Kenya** has taken active steps to facilitate microinsurance. The concept of microinsurance will be incorporated in Kenya’s Insurance Act, which is being revised. However, detailed regulations will subsequently have to be developed to define the parameters with which microinsurance underwriting, intermediation and administration will be implemented. Present challenges to be found outside Kenya’s insurance regulation include the inability of microfinance institutions to act as distribution channels for insurance products.

A similar situation can be witnessed in **Uganda**, where the Insurance Act is being amended and will include regulations regarding microinsurance. The Uganda Insurance Commission (UIC) has already taken on the challenge to improve and develop detailed regulations in order to abolish barriers to microinsurance market development. For example, current banking and microfinance deposit-taking institution laws do not allow bancassurance or any organisation regulated by the Financial Institutions Act to act as an agent. The exclusion of one of the most important intermediaries – the MFIs – which cannot act as distribution channels hinders the expansion of the microinsurance market.

Another important issue is related to mutuals. The number of members in a mutual company is limited to 300 whereas it would be more beneficial to have a larger number of members. Ideally the capital base for mutuals should be related to the risk they face, which is currently very low.

Furthermore, the pricing of microinsurance products is different from the pricing of mainstream insurance products. To optimise the necessary approval of premiums and commission rates by the UIC, more reliable data is needed.

The National Insurance Commission (NIC) of Ghana promotes microinsurance actively. The NIC supports an industry-wide learning process by supporting training on microinsurance for insurers and intermediaries.

Voluntary microinsurance purchase is still rare in Ghana and so far involves less than 1% of the population. The range of products is rather narrow, with credit-life insurance dominating. Many products appear to be poorly designed. Insurers need to simplify their products and to work more to respond to clients' needs. The NIC believes that a healthy microinsurance sector has to be backed by a sound and flexible regulatory environment and effective consumer education efforts. The NIC is working on integrating microinsurance into the regulatory framework for insurance currently being developed in Ghana. The NIC follows a phased approach. In the first phase, microinsurance will be regulated as a business line for licensed insurers. This functional approach requires regulation of specific microinsurance product features and delivery channels, among others. In the second phase, the NIC might allow microinsurance to be provided by a licensed microinsurer, which means that a separate microinsurance tier will be introduced.

The NIC stresses that an adequate framework of consumer protection must go hand in hand with strengthening financial literacy among consumers. In areas of consumer protection and financial literacy, the NIC has already implemented various measures ranging from establishing complaints offices to awareness-raising campaigns using radio, theatre plays and television.

These measures will directly affect the development of the insurance sector in Ghana and help foster consumer protection in a fast-growing market. The NIC will make sure that insurance for the low-income segment is considered appropriately.

Conclusion

Inputs in this seminar have shown some options that regulators have used for developing an "enabling policy" and regulatory environment for microinsurance in their particular jurisdictions.

The solutions presented are most effective when combined as part of a broader financial inclusion agenda in order to ensure that the low-income population has access to benefits of insurance. Microinsurance is a field in which lessons are still quite scarce, and even good practice has only recently emerged. Therefore, effective and efficient capacity development of insurance supervisors and policymakers remains crucial for building an environment that promotes access to insurance.

Recommendations

For regulators, supervisors and policymakers:

- Promote microinsurance with the support of all stakeholders.
- Monitor the informal market separately.
- Keep regulatory costs low.
- Be aware of the limits of microinsurance; governments need to step in with social security programmes.
- Promote financial literacy and insurance awareness.
- Revision of regulatory and supervisory frameworks is a long and tedious process – getting started is the most important step in this process.
- Join the Access to Insurance Initiative.

For providers and intermediaries:

- Develop low-cost insurance models that make microinsurance affordable for low-income clients.
- Exploit the potential of over-the-counter products and group insurance products to reduce costs.
- Venture into new intermediary models, e.g. self-help groups and MFIs.

Pre-conference

Workshop on financial performance indicators for microinsurance

By Véronique Faber,
Microinsurance Network,
Luxembourg

ADA, BRS and GTZ, as part of their involvement in the Microinsurance Network and the Performance Indicator Working Group, are organising various training courses that are part of a larger initiative around performance indicators that aims to

- strengthen awareness of performance analysis and monitoring;
- share the information and knowledge necessary to monitor performance and to increase transparency;
- develop tools that help microinsurance providers achieve viability.

Workshops and training courses are a major part of this initiative as they allow participants not only to learn about performance measurement but also discuss their own performance indicators.

An introductory workshop on performance indicators in microinsurance was offered to almost 30 participants during the 2009 International Microinsurance Conference in Dakar. Most participants were practitioners from the West African region working for MFIs or mutuals.

This half-day workshop aimed to acquaint participants with the significance of actively managing performance and the relevance of key principles and indicators.

Box 4

Objectives of the workshop

- Teach microinsurers the existence, definitions and interdependence of commonly used and accepted performance principles and indicators.
- Enhance the skills and capacity of management in interpreting ratios, analysing financial trends, positioning themselves within the industry (benchmarks) and identifying key areas of risk to mitigate.
- Heighten microinsurers' awareness of the importance of performance monitoring as a tool for their daily management, decision-making and business planning processes.
- Raise awareness of the benefits of transparency including easier access to external sources of funding.

An overview of the importance of performance management and the tools available was provided (handbook and factsheet, Excel-based software to extract the indicators). The nine key principles and ten key indicators were explained and suggestions were made on how to interpret them.

Measuring performance requires the availability of quantitative data, which can be analysed and interpreted, and thus provides an overview of the microinsurance programme in question. Data accuracy and sound data collection principles are a basic requirement for any analysis to be representative and precise.

Before calculating microinsurance performance indicators, it is important to integrate a set of principles. These principles are not to be mistaken for the principles of insurance, but are principles of good management and a priori conditions for accurate performance measurement.

The nine key principles are:

- 1 Separation of data
- 2 Collection of relevant and accurate data
- 3 Production of financial statements
- 4 Calculation and setting up premium and claim reserves
- 5 Efficient claims monitoring
- 6 Clear investment policy
- 7 Right technical insurance expertise
- 8 Transparency
- 9 Client focus

6 — Denis Garand, Consultant, Denis Garand and Associates, Canada, co-author of the performance indicators handbook.

7 — About 30 participants, mainly practitioners from the West African region, attended the performance indicators workshop for microinsurance.



6



7

The indicators are grouped into different categories:

Product value

How efficient is the delivery of microinsurance? How valuable is microinsurance to the insured? Is the microinsurance product or programme viable?

Product awareness and satisfaction

How satisfied is the insured? How well does the product meet the true need? How well developed is insurance awareness?

Service quality

How competitive is the product vis-à-vis other products or household risk management alternatives? How responsive is the service? How well does the product fit the insured's needs? How well does the insured understand the product?

Financial prudence

Will the insurer be able to meet its future obligations? How readily can the insurer meet its short-term expense and claim obligations?

To illustrate the importance of managing performance and how the indicators facilitate this, the preliminary results of an ongoing evaluation of the training – based on a survey of almost 100 previous training-course participants from Latin America, Africa and Asia – were presented together with case studies from the Association Sénégalaise d'Appui au Développement de l'Entreprise Privée (ASADEP), Senegal and Alexandria Business Association, Egypt.

The initial results are very significant and the general consensus was that applying indicators assisted micro-insurance managers to make more informed decisions and thus improve the programme's performance:

- 93% of participants stated that they had started to separate their data, which is one of the key performance principles.
- Participants were able to reduce the period for paying claims significantly from 1–3 months to 10 days–1 month.

The survey results will be published in 2010.

Table 1
Key performance indicators for microinsurance

	Indicator	Basic formula
1	Net income ratio	Net income/earned premium
2	Incurred expense	Incurred expenses/earned premiums
3	Incurred claims ratio	Incurred claims/earned premiums
4	Renewal rate ratio	Number of renewals/ number of potential renewals
5	Promptness of claims settlements	Select only claims that have been processed and paid from the entire set of claims for a period, and apportion this set of paid claims in terms of the number of days that it took to pay each claim, according to a defined schedule
6	Claims rejection ratio	Number of claims rejected/ all claims reported
7	Growth ratio	(Number of insured n – number of insured n-1)/number of insured n-1
8	Coverage ratio	Number of insured n /target population n
9	Solvency ratio	Eligible assets/liabilities
10	Liquidity ratio	Available cash or cash equivalents/ short-term payables (three months)

For more information on results of this initiative or further training courses, visit www.microinsurancenet.org or www.microfact.org.

Agenda

Day 1 afternoon sessions 3 November 2009

Opening of the conference	Speakers	Facilitators
Welcome address	<u>Craig Churchill</u> Chairman, Microinsurance Network, Switzerland <u>Thomas Loster</u> Chairman, Munich Re Foundation, Germany	
Keynote speech	<u>Charles Dan</u> Regional Director for Africa, ILO, Ethiopia	
Inaugural address	<u>Néné Dieng</u> Ministry of Economy and Finance, Senegal	
Plenary 1		
Round table: Challenges of microinsurance in Africa	<u>Michal Matul</u> ILO, Switzerland Introduction <u>Yoseph Aseffa</u> ILO, Ethiopia Introduction: The landscape of microinsurance in Africa – Key findings Panellists <u>Jean-Claude Ngbwa</u> Secretary-General, CIMA, Gabon <u>Prisca Soares</u> Secretary-General, AIO, Cameroon <u>Protais Ayangma Amang</u> President, FANAF, Cameroon <u>Olivier Louis dit Guérin</u> ILO, Senegal	<u>Craig Thorburn</u> Senior Financial Sector Analyst, World Bank, USA

Introduction and welcome addresses

The fifth global forum of microinsurance experts and practitioners held in Dakar refocused the attention of industry leaders and development professionals on Africa. It took a number of significant steps to deepen understanding of the bottom end of the market and transform this knowledge into action to help low-income people manage risks as they climb out of poverty.

Microinsurance is growing and expanding in Africa. Since 2006 when the 2nd International Microinsurance Conference was held in Cape Town, the number of low-income people covered in the continent has increased by about 80%, to over 14 million, though the geographic and product spreads are far from even across Africa. "Substantial parts of the continent remain almost barren of microinsurance," notes a landscape study especially commissioned for the Dakar conference by the Microinsurance Innovation Facility. "Health, agriculture and property covers, all significantly in need, ... are evident as a mere fraction of life insurance coverage." And in life insurance, the low-value credit life cover for loans dominates the African market.

"Overall, microinsurance remains an underutilised product", said Craig Churchill, Chairman of the Microinsurance Network, in his opening remarks. "Much more needs to be done to make it more widely used", he added, "particularly as the ranks of those caught in poverty continue to increase."

While demand has grown, the Microinsurance Network has kept pace by increasing and enhancing its facilitating role on the supply side. "Over the past eight years it has evolved from 15 to 120 members, gaining strength in diversity", Mr. Churchill said. "Among its hallmarks are its link with the ILO's Microinsurance Innovation Facility funded by the Bill and Melinda Gates Foundation, collaboration with the International Association of Insurance Supervisors (IAIS), and the current project to set up a global database", he added.

Yet another milestone came in 2004 when the Network embarked on long-term collaboration with the Munich Re Foundation, co-sponsor of the series of international conferences. The Foundation's chairman, Thomas Loster, was on hand to welcome the some 400 delegates from 64 countries attending the Dakar conference.

"We are meeting in Africa for the second time," Mr. Loster said. "One way this conference is different is that for the first time it will explore the scientific perspective through the participation of the *Journal of Risk and Insurance*. Our goal, however, remains the same", he added: "to help make microinsurance grow and grow so that it assumes macro proportions."

"The potential in Africa is enormous", Mr. Loster said. "Research shows that the poor are willing to pay for a product that meets their needs at a fair price, with flexible schemes for the payment of premiums. These findings present opportunities as well as challenges for further development of microinsurance."

An address on behalf of Senegal's Minister of Economy and Finance, Abdoulaye Diop, pledged the country's ongoing efforts towards "finding ways and means to enable the section of the population not eligible for typical insurance products, to access insurance services fitting their needs and resources." It identified four "essential issues" for microinsurance development:

- Implementing simple and appropriate products bearing in mind consumer protection.
- Creating structures capable of hosting microinsurance activities complying with prudential provisions.
- Adapting delivery channels considering particularities of clients.
- Amending the legal and regulatory framework, by enlarging current provisions or creating a new specific framework.

"I am convinced," the Minister said, "that the rise of microinsurance is within our reach, especially considering that it should help our governments fight poverty and at the same time allow the insurance sector to operate profitably."



8 — Left to right: Thomas Loster, Chairman, Munich Re Foundation, Germany; Mariane Diop, Director of Insurance – Ministry of Economy and Finance, Senegal; Charles Dan, Regional Director for Africa, ILO; Craig Churchill, Chairman, Microinsurance Network.

Keynote speech

The address was transcribed from an audiotape for this report.

Charles Dan,
Regional Director for Africa,
ILO, Ethiopia

Mr. Thomas Loster, Chairman of the Munich Re Foundation, Mr. Craig Churchill, Chairman of the Microinsurance Network, Mr. François Murangira, ILO Director – Sub-Regional Office in Dakar, dear promoters and leaders of microinsurance, participants, and friends.

Let me first commend the authorities of Senegal for their warm welcome and generous hospitality, and convey to the President of the Republic, His Excellency Abdoulaye Wade, our respect and consideration for his deep political commitment to social protection for all.

Let me also commend the initiators of this great ambition that brings us here today, which is to promote microinsurance as a development tool enabling the poor and their families to be protected against the risks and hazards of life.

As highlighted by our Director General, Mr. Juan Somavia in his report entitled "Working out of poverty": "The poor have enormous reserves of courage, ingenuity, persistence and solidarity that help them get through each day on less than the equivalent of US\$ 2. In many ways, the working poor are the ultimate entrepreneurs."

Microinsurance can be the socio-economic catalyst to support, protect and assist them to work out of poverty. But we still face many challenges in order to accelerate the development of microinsurance in the world and allow this tool to fulfil its potential.

That's why I would like to congratulate the Munich Re Foundation and the Microinsurance Network for organising this annual international conference being held, once again, on African soil. Thank you for your commitment. Congratulations for your determination.

Protecting the working poor, investing in the future

Millions of low-income families in the developing world live every day with the risk of losing what little they have. Unprotected, they are vulnerable to adverse events: drought, flood, accident, illness. And in such situations, microinsurance protects the working poor and microenterprises that are the real building blocks of development.

That is why we believe that promoting microinsurance is investing in the future. But that vision and that investment require sustained national and international efforts.

Microinsurance: A pillar of the Decent Work Agenda – An engine for the social protection floor

Yes, indeed, our common goal is "to provide insurance to the working poor and low-income households." And for this reason microinsurance is a major pillar of the ILO's Decent Work Agenda: promoting every day and everywhere employment, workers' rights and social protection through social dialogue. That's what we stand for in the ILO today. And that's why we strive to promote microinsurance as a key strategy to achieve security, equity, dignity and social justice for the working poor.

Last April, the Chief Executive Board of the United Nations approved the establishment of a social protection floor as one of the key initiatives to cope with the global crisis. The ILO and WHO are the lead agencies designated to spearhead that movement supported by FAO, IMF, the World Bank, UNDP, UNESCO, UNFPA, UNICEF, UNHCR, UNAIDS, WFP, regional development banks, global funds and international NGOs as well as bilateral donors.



9 — Charles Dan,
Regional Director for Africa,
ILO, Ethiopia.

A global movement for a global ambition

And in this connection, the “Global Jobs Pact” adopted by our International Labour Conference last June to support the recovery efforts of countries can be a powerful instrument.

Indeed, through this Global Jobs Pact, the ILO also calls on countries to build adequate social protection for all, drawing on a basic social protection floor, including

- access to healthcare;
- income security for the elderly and persons with disabilities;
- child benefits and income security;
- public employment guarantee schemes for the unemployed and working poor.

We believe that microinsurance is a key tool for the development of the social protection floor. Microinsurance can be a driving force to promote inclusion in the insurance markets. It can be a powerful mechanism to enable the working poor to efficiently manage their risks, particularly in a period of global crisis.

Unleashing the potential of microinsurance – Protecting the working poor

The ILO’s report to the G20 Pittsburgh Summit last September reminded us that according to the United Nations, between 73 and 103 million people will remain in or fall into poverty because of the global crisis. That is why this 5th conference is of particular importance in responding efficiently to the current financial and economic crisis.

Many countries, including ones in Africa, are making great efforts to ensure basic social protection to all, and to extend health benefits to rural areas and in the informal economy.

But we still have a long way to go. Indeed there are still a number of important conditions that need to be put in place to enable civil society, cooperatives, microfinance institutions, and insurance companies to live up to their potential to extend sustainable protection to the working poor.

Let me highlight here today, four policy directions that I invite this conference to consider in order to unlock the potential of microinsurance for poverty alleviation, growth and development.

First, insurance penetration. The insurance penetration in many developing countries is less than 4%; and in some least developed countries (LDCs), it is even below 1%.

In this connection, the ILO’s Microinsurance Innovation Facility, set up with the support of the Bill and Melinda Gates Foundation, is striving to address the challenges faced by the insurance industry to enhance its penetration in developing countries through grants, capacity-building and research. We need to foster the interaction with the private sector and non-governmental organisations to design and distribute products that provide real value to the working poor, to enable them to manage risks, reduce their vulnerability, and break the vicious cycle of poverty.

Second, regulation and supervision. Microinsurance aims to benefit a population group that is least knowledgeable about insurance. This means that regulation should make it possible for insurers to come up with simple products that can easily be understood by the poor. Implementation of viable microinsurance schemes would therefore require close collaboration between regulatory authorities and the insurance industry in developing products, defining governance and setting service standards.

In this regard, I would like to congratulate the promoters of the recently launched Access to Insurance Initiative, of which the ILO is proud to be a sponsor. Indeed, this initiative aims at developing a regulatory framework that will enable the insurance industry in developing countries to provide affordable and meaningful microinsurance to low-income persons.

Third, access. Despite some progress, we need to acknowledge that too often access to insurance has not been a high priority for policymakers. That’s why we should never spare our efforts to advocate again and again well-designed government policies and programmes aimed at providing access to microinsurance. We should never give up for more financial inclusion in the world.

And fourth, partnerships. Nobody can do it alone. Partnerships can play an important role in overcoming barriers to the development of microinsurance, such as limited data availability, insufficient capacity, and lack of awareness at all levels. To help overcome these constraints, microinsurance for the poor should also become a priority of development cooperation.

Building trust in microinsurance

Let’s be frank about it. One of the serious constraints on the development of microinsurance is trust. Trust, in French, is “confiance” which etymologically means “faith”. The role of this conference, our role in all this, is to build that trust for millions of low-income families to effectively face risks exacerbated by poverty.

Our role is to share our faith in the immense contribution that the poor can make every day to development if they are truly and continuously supported in their efforts.

It is with faith and trust that we can overcome the challenges related to the development of basic insurance services for the working poor and their families.

Is this impossible? No. Because, indeed, I have faith and I do trust our ability to achieve together the great ambition which is: microinsurance as a tool for poverty eradication, sustainable development and decent work for all.

Thank you for your attention.

Plenary 1

Challenges of
microinsurance in Africa
Round table

Picking up points of the keynote speech, the plenary took a close look at the role of microinsurance in addressing the huge issues of poverty eradication and sustainable development in Africa. While there are difficulties in putting this tool to work at its capacity with virtually no infrastructure, one can barely imagine markets with as much potential and business opportunities as the market for microinsurance in Africa. Some 700 million people form the customer base for products to protect them from risks they face in their everyday life.

Results of the study "The Landscape of Microinsurance in Africa" – presented at the conference for the first time by the ILO – set the stage for discussions by providing a key set of figures on the status of microinsurance in Africa. By the end of 2008, only 14.7 million of the people in Africa living under US\$ 2 per day in 32 countries were covered by microinsurance. Moreover, 56% of the penetration is in South Africa where funeral insurance is widespread.

On average, microinsurance schemes grew at an impressive rate of 30% from 2007 to 2008. Generally, penetration rates are relatively high for life and credit life insurance, while they are low for health insurance and almost negligible for property and agricultural insurance.

For farmers, index insurance consists of only five pilot schemes in Africa. A month after the conference, a Global Index Insurance Facility (GIIF) became available to help farmers and others in developing countries more easily access insurance for weather-related risks and natural disasters. It was launched by the International Finance Corporation (IFC) – a member of the World Bank Group – in partnership with the European Commission and the Netherlands' Ministry of Foreign Affairs (for details go to www.ifc.org/giif).

Roughly, there are three types of microinsurance providers in Africa: regulated insurers, mutuals and other community-based organisations, and other risk carriers like MFIs, NGOs, hospitals and institutions that manage their own insurance programmes.



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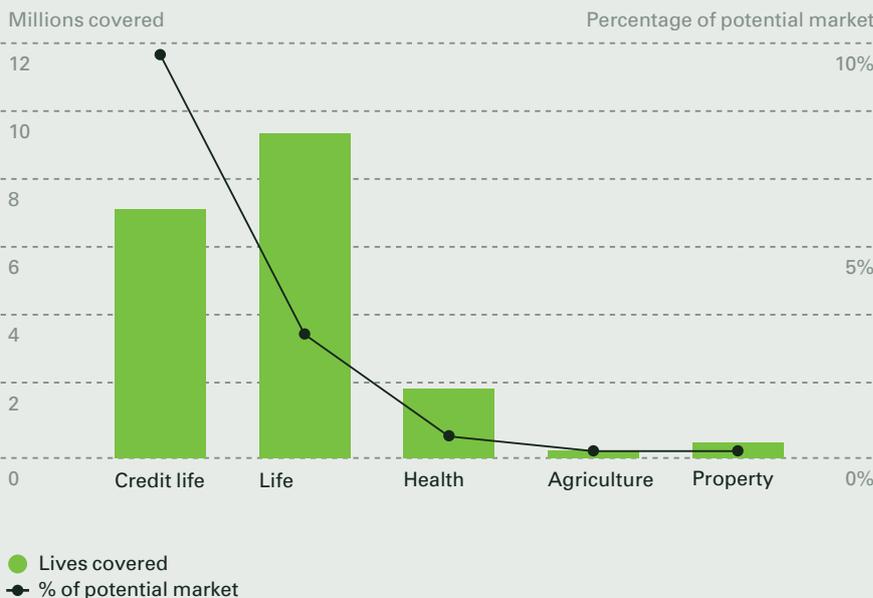
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10 — Left to right:
Michal Matul, ILO, Switzerland;
Yoseph Aseffa, ILO, Ethiopia;
Protais Ayangma Amang, President,
FANAF, Cameroon; Craig Thorburn,
Senior Financial Sector Analyst,
World Bank, USA.

11 — Jean-Claude Ngbwa, Secretary-
General, CIMA, Gabon.

12 — Left to right:
Olivier Louis dit Guérin, ILO,
Senegal; Prisca Soares,
Secretary-General, AIO, Cameroon.

Figure 1
Microinsurance penetration in Africa

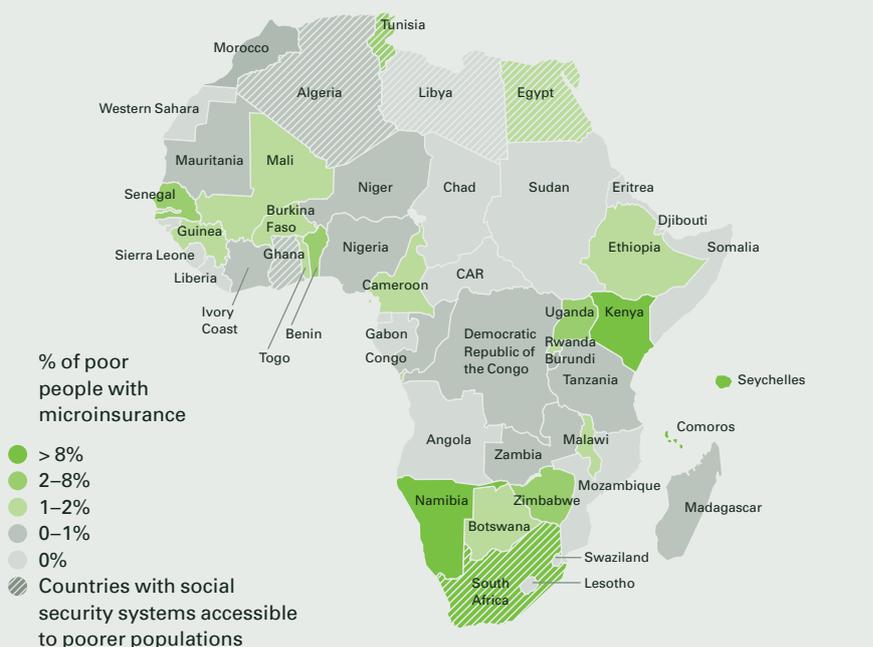


Source: Michal Matul, Michael J. McCord, Caroline Phily, Job Harms. "The Landscape of Microinsurance in Africa". ILO, October 2009

Regulated insurance companies dominate the life insurance landscape and until recently mainly served the non-poor, but still vulnerable, population (See Figure 3). Through partner-agent arrangements or on their own, a number of mainstream insurers over the past few years have ventured into microinsurance. These existing companies are deemed to have the best potential to enhance and extend outreach. Jurisdictions that do not allow composite insurers need to consider facilitating outreach by allowing a microinsurer to write both short-term and long-term products.

Mutuals have played a particularly important role in healthcare financing and have focused on predominantly poor markets. Since their initiation, a number of these mutual organisations have gone through a phase of improvement and professionalisation, and today offer well-managed insurance products of higher quality with a broader cover of risks including not only primary, but also secondary, healthcare. Yet many other community-based mutuals are held back by a low level of contributions and low technical capacity. Overall, health mutuals today may have reached their limits and perhaps should aim for growth through partnership and social transfers, in particular through the design of social protection floors. Also needed are regulatory tools for mutuals, recognising their constraints as well as their rights – such as the regulatory framework adopted by the West African Economic and Monetary Union (WAEMU) for social mutuals in 2009.

Figure 2
Availability of microinsurance in Africa



Source: Michal Matul, Michael J. McCord, Caroline Phily, Job Harms. "The Landscape of Microinsurance in Africa". ILO, October 2009

Plenary 1
Challenges of
microinsurance in Africa
Round table

Microinsurers, in particular informal providers – MFIs, NGOs and other institutions – must realise that there is a catastrophic aspect of the insurance business which makes it essential for microinsurers to be regulated by the insurance supervisor. To deal with issues of climate change and the frequency of natural disasters, there is also a need for reinsurers to provide technical support to players in the microinsurance sector.

With the exception of Kenya, Namibia, Senegal and Cameroon, low-income people in Africa typically only have access to one single form of coverage. There remains a large potential to exploit, but the market presents many challenges. These include, on the supply side, lack of understanding about the needs of clients and regulatory framework, and, on the prospective customer's part, lack of trust in insurance. (See Figure 4 for additional challenges.)

Past experiences do not indicate superior business models that prove to be particularly successful compared to others, but do point to a number of promising approaches that can help overcome the difficulties of serving this market.

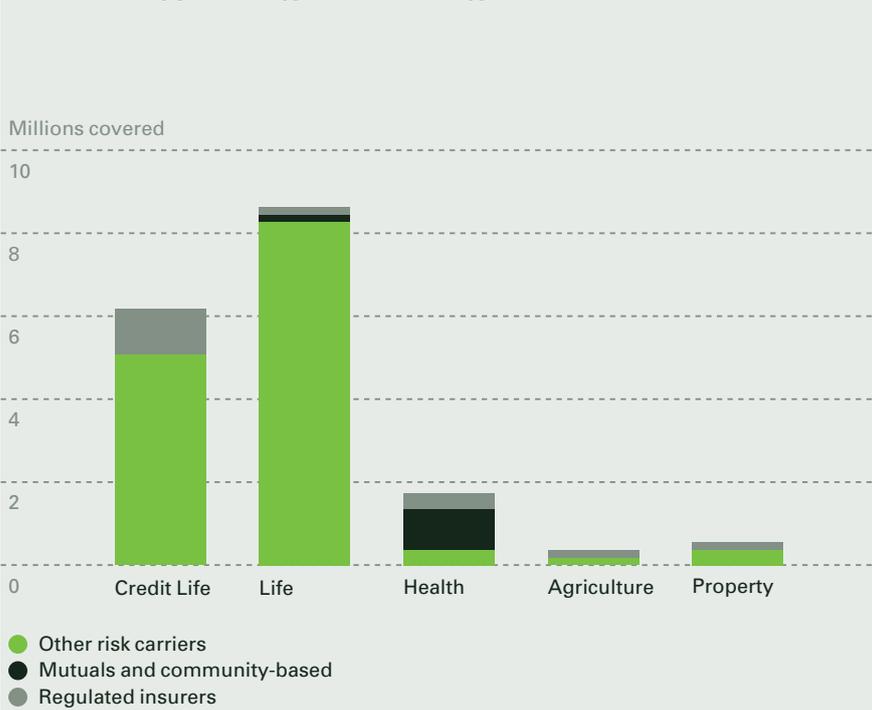
Insurance education is one of the key factors to success. Market research needs to be more extensively conducted to get a better understanding of customer needs. To deal with the limited ability to pay, an integrative approach can help where, in addition to providing insurance coverage, there is also a focus on increasing the capacity of community members to pay for financial services. To build trust in clients, nothing works better than demonstrable results. People learn not only from their own experience, but also their friends' and neighbours' dealings with insurance. Prompt and fair processing of first claims is crucial for the success of a microinsurer.

To help close technology gaps, the Microinsurance Network's working group on technology continues to look at processes and practices that would make IT systems accessible, affordable and functional on a small scale for microinsurers. To help develop staff qualified to handle microinsurance, national insurers' associations, regional bodies and other institutions are funding and conducting various training programmes.

Other key success factors are the integration, partnership and collaboration of microinsurance providers with

- organisations that serve the poor, know their needs and have their trust;
- regulators that create licensing and regulatory processes that encourage further development of microinsurance;
- governments that design inclusive national policies to help the poor to participate in insurance and also define the role of microinsurance in the social protection framework to reduce uncertainty about future government action.

Figure 3
Penetration by product type and insurer type



Source: Michal Matul, Michael J. McCord, Caroline Phily, Job Harms. "The Landscape of Microinsurance in Africa". ILO, October 2009

There is a widespread belief that without the participation of the state the microinsurance sector cannot succeed. And there are even suggestions that governments should exempt microinsurance from taxation.

In Africa as elsewhere, not only specialised microinsurance companies are able to succeed. Highly innovative, resource-rich traditional insurance companies should be in a good position to start developing and marketing microinsurance all over the continent. In some cases their dilatoriness might be due to efforts in developing business plans, strategies and understanding the uniqueness of the market. In other cases, they might not yet be convinced of the economic prospects of microinsurance and, as a result, might take even longer to invest.

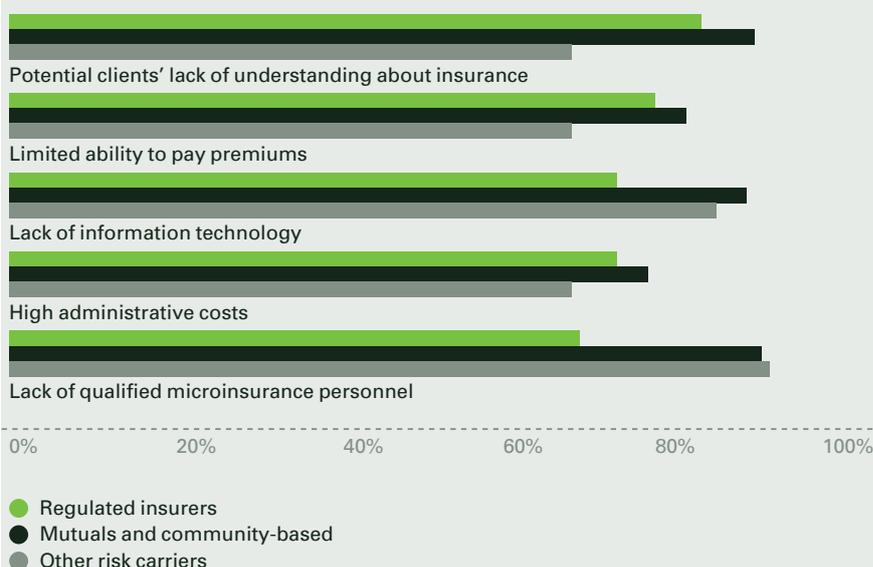
Accordingly, an important step is to heighten insurers' awareness of what microinsurance is about and the economic benefits that could accrue from complementing social security systems, particularly in large-population countries.

One of the principal causes of difficulties with microinsurance schemes is their insufficient adaptation to the particularities of the market. In most cases, it is inappropriate to take an existing model from one place and transplant it to another. Instead, insurers will have to focus even more on the specific needs of their target markets. Local cultural factors differ from country to country, and often regionally within each country, in Africa – and so do the real needs of low-income people.

Lessons learnt

- Africa has a huge untapped market, particularly for micro health and agriculture schemes.
- To expand health insurance, community-based mutuals need to partner other social-protection institutions.
- In agriculture, index insurance needs to be taken beyond the pilot phase.
- Potential customers need greater awareness of insurance as a risk-management tool of first choice, and insurers need a deeper understanding of the micro market, of cultural differences among communities, and of the clients' real needs.
- An integrative approach, covering not just insurance but related needs, could be combined with development efforts to sustain low-income clients' ability to pay premiums and prevent lapses.
- Good news travels, but bad news travels faster and stays longer. Few promotions in a community are more effective than prompt settlement of a claim.

Figure 4
Challenges of the microinsurance market as indicated by 176 respondents in a survey reporting on 544 insurance schemes



Source: Michal Matul, Michael J. McCord, Caroline Phily, Job Harms. "The Landscape of Microinsurance in Africa". ILO, October 2009

“Insurance in Africa is for the rich – we need to go to the people to change their mindset.”

Sammy Makove,
Insurance Regulatory Authority of Kenya

13, 14, 15, 16 —
GTZ/Access to Insurance Initiative, MicroEnsure and the Microinsurance Innovation Facility were among the ten organisations which presented their work in the exhibition area of the conference.

17 — Representatives of about 190 organisations from 63 countries attended the conference – an unprecedented diversity of participants.



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Agenda

Day 2 morning sessions 4 November 2009

Plenary 2	Speakers	Facilitators
Health Linking microinsurance to national health insurance	<p><u>Marcia Metcalfe</u> Freedom from Hunger, USA</p> <p><u>Cleofe Montemayor-Figuracion</u> CARD-MRI, Philippines Extending healthcare coverage to the poor through private/public linkages: Lessons learned from CARD Bank, Philippines</p> <p><u>Francis Asenso-Boadi</u> National Health Insurance Authority (NHIA), Ghana The interplay between district-wide health insurance schemes and national health insurance policies in Ghana</p>	<p><u>Christine Bockstal</u> ILO, Senegal</p>
Parallel sessions		
Session 1 Introduction to microinsurance	<p><u>Marc Nabeth</u> CGSI Consulting, France</p> <p><u>Michael J. McCord</u> MicroInsurance Centre, USA</p> <p><u>Dipankar Mahalonobis</u> MicroEnsure, Uganda</p>	
Session 2 Health Health mutuals	<p><u>Maxime Prud'Homme</u> SOCODEVI, Canada The experience of the Mutuelle de santé régionale de Sikasso in Mali</p> <p><u>Sophy Fall</u> Caritas Mauritanie, Mauretania Dar-Naïm community mutual, Nouakchott, Mauritania</p> <p><u>Aparna Dalal</u> Financial Access Initiative, USA Using health insurance to improve quality of care</p>	<p><u>Graziella Ghesquière</u> Louvain Coopération au Développement, Belgium</p>
Session 3 Academic track Impact of microinsurance	<p><u>Ralf Radermacher</u> Microinsurance Academy, India What do we know about the impact of microinsurance?</p> <p><u>Syed Abdul Hamid</u> University of Dhaka, Bangladesh Can health microinsurance reduce poverty? Evidence from Bangladesh</p> <p><u>Munenobu Ikegami</u> International Livestock Research Insitute, Kenya Dynamic effects of index-based livestock insurance on household intertemporal behaviour and welfare</p>	<p><u>Kim B. Staking</u> Colorado State University, USA</p>

Plenary 2

Linking microinsurance to national health insurance

Health is the top priority in insurance coverages for the poor. The plenary examined two cases which show how microinsurance and national social security systems could interact to extend healthcare to the poor. In the Philippines, the state health insurance entity is partnering larger MFIs and other organised groups to boost enrolment in the informal sector. In Ghana, the national health insurance programme is ensuring delivery of basic healthcare to people through three types of local schemes.

KASAPI, the Philippines

Number of people insured
62,500

Insured risks

Health, with hospital benefits based on a fixed schedule

Premium range

US\$ 23.41–24.30 per year

In 2005, PhilHealth (Philippine Health Insurance Corporation) launched a programme called KASAPI (Kalusugan ay Sigurado at Abot Kaya sa PhilHealth Insurance) to partner established organised groups to increase and sustain membership, and help limit adverse selection, in the informal sector. Most of the roughly nine million people in the country without health insurance are from the informal sector. The largest group in the KASAPI partnership programme is CARD MRI (Center for Agriculture and Rural Development Mutually Reinforcing Institutions).

CARD MRI, the largest MFI in the country with some one million members, joined KASAPI in 2007. Although it provides other insurance products, it recognised that managing a stand-alone health insurance product required different skills and capabilities while presenting a number of advantages. In view of its great stake in the health of its clients, CARD MRI saw the link with the national healthcare scheme ensuring its:

- loan repayment rates.
- steady growth of savings.
- microenterprise operations unaffected by health risks.
- competitive advantage among organised groups.
- financial protection for clients.
- pursuit of social missions.

Eligibility criteria included the requirement for the member to have been a part of CARD MRI for at least one year, and have had a 100% repayment record for any previous loans and a 90% attendance at its local meetings.

In two years, more than 12,500 members, covering 62,500 individuals in their families, have enrolled in KASAPI. To collect and analyse comprehensive qualitative and quantitative impact data on client satisfaction, retention, loan size, repayment rates, use of health services and costs and benefits to the institution, CARD MRI has been working with Freedom from Hunger. Founded in 1946 and based in the USA, Freedom from Hunger works in 17 countries on integrated financial services and life skills training to equip the rural poor to escape poverty.

CARD MRI's link with PhilHealth was found to have a high customer retention rate of 90% and client satisfaction with the programme. The main driver for disenrolment was the loss of one or more of the eligibility criteria (52%). Apart from the national health programme, CARD MRI has a partnership with a commercial health insurance company and offers additional products, though there are some concerns about their affordability.



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18 — Left to right:
Cleofe Montemayor-Figuracion,
CARD-MRI, the Philippines; Marcia
Metcalf, Freedom from Hunger, USA.

19 — Christine Bockstal, ILO, Senegal.

20 — Francis Asenso-Boadi,
National Health Insurance Authority
(NHIA), Ghana.

As at June 2009, PhilHealth had 18 million members and 81 million beneficiaries. Its goal is universal coverage, with 85% by 2010. Coverage at the end of 2008 was 76%. The premium is US\$ 25.50 per family per year, paid quarterly. The premium is the same whether or not the person is employed. Where people are below the poverty line, the premium is subsidised by the government. Some 46% of members gain access to PhilHealth via their employer and 42% via the informal sector. There is an extensive network of public and private providers. Benefits include hospitalisation (limited costs depending on the grade of the hospital; sometimes a partial payment is required from the patient), limited outpatient costs (covering surgery, dialysis and cancer treatment), child deliveries and newborn care, and certain drugs and supplements for specified diseases (SARS/avian flu/H1N1).

For the state insurers, MFIs are an attractive channel for delivery of micro health insurance. There are nearly 3,500 MFIs around the world providing financial services to 155 million borrowers, many of whom (34 million) are very poor and in remote rural areas. An MFI can be the state insurer's trusted agent and help with client education and sustainable enrolment at a reduced risk and cost.

NHIS, Ghana

In 2003 the government of Ghana set up a National Health Insurance Scheme (NHIS), to enable residents to obtain, at least, basic healthcare services without paying money at the point of delivery of the service.

This scheme was modelled on the country's community-based health mutuels and replaced the existing cash-and-carry system. It required all residents of Ghana to join one of three schemes:

- District mutual insurance (DMHIS),
- Private mutual insurance (PMHIS),
- Private commercial health insurance (PCHIS).

The ten stated objectives of the national scheme addressed three main issues – quality, cost and efficiency – and aimed at assuring a specified minimum benefit package for all residents within five years. The task of creating, developing and operating the national scheme included managing a National Health Insurance Fund.

The DMHIS would be not-for-profit, subsidised by government and to be created by every district in the country for its residents. The PMHIS may be established and operated by any group of persons: community, occupation, or religious. It would also be not-for-profit, but would not receive any government grants and might not have a district focus. The PCHIS would also not have a district focus, but would be for profit, with premiums based on projected risks.

Box 5

Challenges the National Health Insurance Scheme of Ghana faces are to

- strengthen registration and expedite the issue of identity cards as authentication of identity is often difficult;
- increase the scope of NHIS-approved medicines;
- avoid the misapplication of tariffs and spurious claims;
- reduce the delays, of up to 60 days before a claim is paid, in submission of claims by providers;
- enhance the quality of service and ensure its sustainability;
- promote universal NHIS brand awareness;
- centralise the processing of claims and control abuses such as claiming for complicated malaria after suffering simple malaria.

Source: Asenso-Boadi, Francis. Presentation "The interplay between district-wide health insurance schemes and national health insurance policies in Ghana". 5th International Microinsurance Conference 2009

Plenary 2

Linking microinsurance to national health insurance

As at June 2009, there were 145 DMHIS schemes and three PMHIS, with a total of 13,840,194 people registered – 67% of Ghana’s population.

The DMHIS plays an important role as a distribution channel, marketing the products and collecting premiums, and liaises with service providers directly. The premium for its minimum coverage is US\$ 9.80 per year – less costly than the pre-2003 cash-and-carry system. Members are not required to make additional payments when they use a service.

On the drawing board is a uniform technology platform for the DMHISs to operate effectively, efficiently and economically, and help control fraud such as some members fronting for others not enrolled.

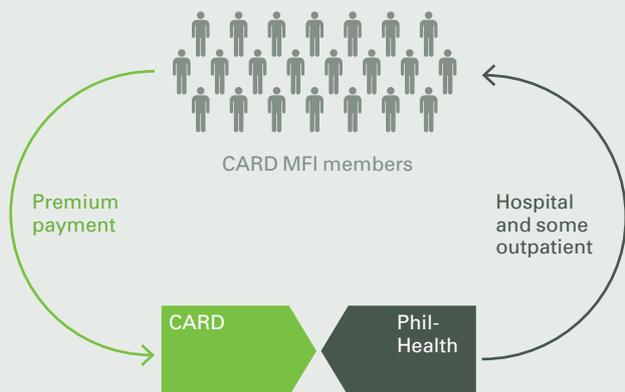
An important NHIS feature is the exempted groups which do not pay registration fees or premiums and are subsidised by the state: pregnant women, indigenes, children below 18 whether the parents are registered or not – the latter subject to an upcoming amendment of the Act. Coverage extends to 98% of diseases with limited exclusions, and some cancers such as breast cancer, with diagnosis always paid. It serves as a gatekeeper system to control specialist care.

A formal tax, the National Health Insurance levy, covers 85% of required funding. Other funding sources, besides premiums, include Social Security and National Insurance Trust payments, deductions at source from the formal sector, and returns from investment of the premiums.

Lessons learnt

- Creative partnerships between insurers and existing community-based organisations can increase coverage of health services to the informal sector. In rural areas, they can help overcome barriers to coverage such as lack of accessible and affordable quality healthcare and lack of insurance knowledge and awareness.
- Through such a partnership a state insurer can help increase and sustain membership in the informal sector, while controlling adverse selection.
- Members are willing to pay an extra amount for health insurance products when they have a trusted agent.
- An MFI can use the link with the state scheme as a springboard for supplementary products offered in partnership with a commercial insurer.
- Premiums for the very poor who cannot pay should be absorbed by the state.

Figure 5
A mutually beneficial interaction between CARD MRI and PhilHealth in implementing the National Health Insurance Programme (NHIP) benefits members too.



- Member education/ recruitment/enrolment
- Health loans to members for annual premium
- Remittance of premium

- Group premium (discount)
- ID generation
- Provider-contracting and QA
- Benefit payment

Source: Marcia Metcalfe (Freedom from Hunger). Presentation “Extending healthcare coverage to the poor through private/public linkages: Lessons learnt from CARD Bank, Philippines”. 5th International Microinsurance Conference 2009

Parallel session 1

Introduction to microinsurance

The main challenge of this parallel session was to identify the basic set of microinsurance concepts.

At the beginning, insurance was designed to achieve the same goals as microinsurance now but over time it moved away to other, bigger markets. Today conventional insurance and microinsurance differ mainly in the delivery channels used, the controls used to assess the risk and the degree of complexity of policies. These differences mean that successful microinsurance products, more so than conventional insurance products, must be **SUAVE** (**S**imple, **U**nderstandable, **A**ccessible, **V**aluable and **E**fficient) to effectively meet the needs of the stakeholders – insurers, intermediaries and the low-income market (see Figure 6).

Microfinance is an old concept, with references to credit dating back to Rabelais in the 15th century. In a sense the Grameen Bank in Bangladesh put the same concept into practice in the modern milieu. However, it was not long before people realised that microfinance in itself is not enough; a system needs to be designed that covers risks to help the low-income population be less vulnerable and cross the poverty line. In this context, while credit insurance could be considered as a first stage, there must be additional guarantees.

When designing appropriate new microinsurance products it is important to recognise the sociological and cultural background of each country. Basic elements of insurance such as family, proof of death, and beneficiary have different meanings in different countries and social groups. The design of microinsurance products requires not only sound techniques but a deeper sociological and cultural approach, professional excellence and the courage to innovate all links in the insurance chain.

Introductions to microinsurance usually cover products and their marketing. Often neglected is the key factor of after-sales service. The quality of that service – in particular claims processing – can determine the growth and success of a microinsurance programme. A study of real-life microinsurance claims experience in the Philippines, Uganda and Ghana in 2007 and 2008, involving primarily funeral and life products with some property coverage, yields useful information.

The general finding was that all aspects of the claim process were complicated. For starters, clients found it difficult to report the loss to the intermediary (their MFI), especially when source documents like birth and death certificates were required and, in emerging countries, are complex and expensive to obtain.

Once the client reported the claim, the documents in some cases were lost in transit from branch to head office or otherwise delayed, as the intermediary has limited motivation to follow up on claims or little confidence that underwriters will pay. When the claim reaches the underwriters, other delays occur as they explore all possible ways to limit their liability, trying to find exclusions, possible fraud, missed deadlines for submitting claims, and pre-existence conditions. It seems that underwriters use the guideline “guilty until proven innocent”.

In the event that the claim is adjudicated, the disbursement is subjected to additional delays because there are different departments in charge and restrictive claim signatories’ lists (see Figure 7). When the intermediary receives the cheque, it pays off its own interest first, affecting the transparency of the claim process.



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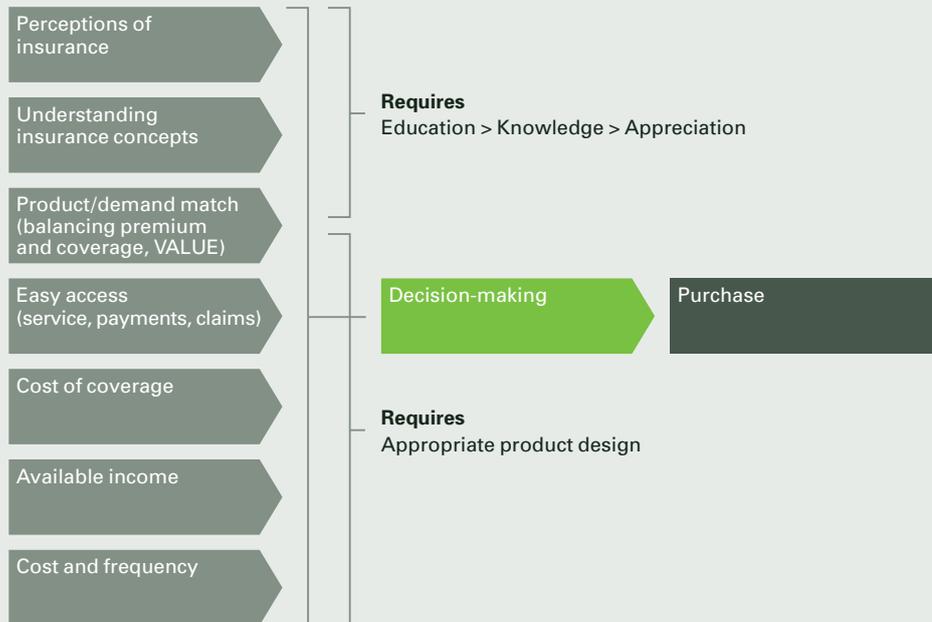
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21 — Left to right:
Dipankar Mahalonobis,
MicroEnsure, Uganda;
Michael J. McCord,
MicroInsurance Centre, USA.

22 — Marc Nabeth,
CGSI Consulting, France.

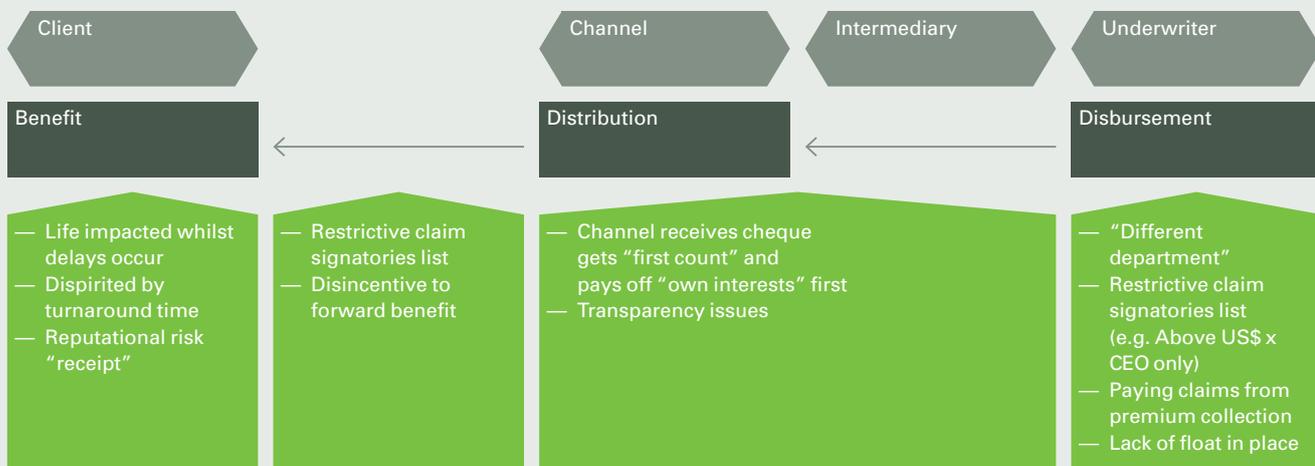
Parallel session 1
Introduction to microinsurance

Figure 6
Factors ranging from perception of insurance to cost and frequency of premium payment influence a microinsurance client's decision to purchase.



Source: Michael McCord (MicroInsurance Centre). Presentation "Microinsurance: An introduction". 5th International Microinsurance Conference 2009

Figure 7
Claim-processing in microinsurance is fraught with delays for clients – not only in proving the loss with hard-to-obtain certificates, but also in adjudication and actual payment.



Source: Dipankar Majalanobis (MicroEnsure). Presentation "Introduction to microinsurance. Claim processing – Real life issues based on data 2008 and 2009". 5th International Microinsurance Conference 2009

The study concluded that the intermediary for the most part is not actively managing the paperwork submission process and underwriters are sending a high percentage of claims to the “pending investigation” pile. Constant delays and complications have a drastic impact on the client’s life, and affect the microinsurer’s reputation and ability to attract more clients and grow.

There are also policy inception issues that affect claims payment:

- When beneficiaries are not stated on forms it leads the insurance company to decline claims as they are “not on the list of named insureds”.
- When the premium is collected as part of a loan payment, the remittance is not traceable and the insurance company declines the claim on the basis that there is no proof of premium collection and hence no coverage.

To address these issues, it is important to invest in client training and awareness – by the use of comic books, brochures, and the implementation of a regular visit programme. It is also necessary to invest in staff training in the distribution channel – to assist clients with document collation, and to use help with the claims process as an encouragement for loans. This will enable the channel management to be aware of the opportunity cost of the monies suspended while loss assessment is undertaken. And it will encourage underwriters to improve their practices, for instance by accepting alternative documentation and avoiding suspending claims “pending investigation” for no reason.

Lessons learnt

- The development and implementation of a product and process that are simple for the client may be one of the most difficult challenges for a microinsurer, but it pays dividends.
- An understanding of sociological and cultural factors in the communities served is critical in microinsurance.
- Innovation to modify mainstream industry procedures and processes is necessary to go down-market successfully.
- After-sales service, particularly claims-processing, requires more attention – especially the training of front-line staff at an intermediary and underwriters at the insurance company.
- An ongoing priority is client education and awareness – using simple methods such as comic books, picture posters and door-to-door visits – to correct misinformation, such as the belief in some rural communities that the insurance premium is a tax.
- Analyse the product in depth before introducing it, keeping it free of obstacles and exclusions and avoiding factors that will make the filing of claims difficult.

Parallel session 2

Health mutuals

The session looks at the experiences of two health mutuals – in Mali and Mauritania. One demonstrates the importance of a long-term commitment to development, education and training. The other shows how changing from monthly to annual subscriptions and focusing on collection can build a mutual's financial strength. Also reviewed is a study of micro health insurance in India, which explores whether insurance can improve the quality of care for the poor, who otherwise may not be received and treated well by providers and doctors.

Mutuelle de santé régionale de Sikasso (MUSARS), Mali

Number of people insured
3,500

Insured risks
Basic and extended healthcare

Premium range
US\$ 0.85 per month for rural and US\$ 1.02 per month for urban members

The case of MUSARS in Mali proves that what has worked well in Canada – cooperative and mutual insurance – can work in other countries too.

This project in the southern part of the country involves three foreign partners: SSQ – Mutuelle de gestion, a health management mutual which is a member of SOCODEVI in Canada; Mutuelle Assurance des Commerçants et Industriels de France (MACIF), and Société de coopération pour le développement international (SOCODEVI), a Canadian network of cooperatives and mutuals which shares technological expertise and know-how with its partners in developing countries to create, protect and spread wealth.

The local partners are the Kafo Jiginew microfinance network, and the Union Technique de la Mutualité Malienne (UTM), an apex or umbrella body of mutual health organisations. MUSARS provides members of these local partners in the Sikasso region with affordable protection against health risks. An 18-month planning period preceded the mutual's launch in 2005. Two years later, in August 2007, MUSARS started operations with a budget of €726,500 for seven years, 2007–2013. MUSARS aims to become organisationally and financially independent with 46,000 insureds by the end of 2013. The SOCODEVI Foundation has given a grant to local mutuals to provide health equipment for health centres.

Though finding skilled staff has not been easy, MUSARS had a professional structure in place by 2009. So far operations have been below target in numbers but in line financially. Difficulties encountered in building clientele are people's lack of understanding and knowledge, superstition, and competition between traditional and modern medicine. Sikasso is a cotton-producing area, and their income is affected by weather.

The fee is different for rural (US\$ 0.85 per month) and urban members (US\$ 1.02 per month), with a discount of 10% for those who agree to deduct the fee from their Kafo Jiginew bank account.

There is no national health insurance system in Mali, and the government is studying the possibility of involving mutuals to extend health coverage, from the current 1.9% to 3%.

Experience with Mali mutuals has shown that education and promotion for clients, training and capacity-building for staff, and synergy among partners are key success factors. Even with those, a new mutual cannot reach break-even before four, five or even seven years.



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23 — Left to right:
Aparna Dalal, Financial Access Initiative, USA; Sophy Fall, Caritas Mauritanie.

24 — Maxime Prud'Homme, SOCODEVI, Canada.

25 — Graziella Ghesquière, Louvain Coopération au Développement, Belgium.

Dar-Naïm Community Mutual, Mauritania

The Dar Naïm Mutual signed up 14,000 members in 2003, its first year. However, a steady decline over 2004–05, despite improvements in the benefits package, led to a massive fall in membership, and the mutual drew on its reserves to break even in 2006 and 2007. It then increased the joining fee from MRO (Mauritania ouguiya) 200 to 300 (US\$ 1.15) and the monthly contribution from MRO 50 to 60 (US\$ 0.23), to no avail.

A study of socio-economic and institutional factors recommended that the mutual should intensify information and awareness campaigns, improve the collection of contributions, and rationalise administration and make it more transparent. The mutual moved from monthly to annual contributions and started a door-to-door campaign to distribute information and increase awareness. It gave members a discount of one month's contribution to move to an annual payment, and reduced the probation period for new members.

To increase efficiency, the mutual strengthened controls over the flow of funds, use of healthcare, and use of services from providers. As a result the contribution (or premium) collection rate rose from 37% in 2007 to 65% in 2008 and the ratio of contributions to care costs from 85% to 105% in the same period.

The mutual learned that monthly contributions are onerous to administer if they cannot be deducted directly from members' salaries, and a high collection rate improves a health mutual's financial situation more than any increase in contributions.

Uplift Health, India

Number of people insured
60,000

Insured risks
In-patient care

Premium range
US\$ 2.25 per year

A study by the Financial Access Initiative (USA) and the Micro Insurance Academy (India) examined whether health insurance can improve the quality of healthcare available to insured clients from poor households.

Set in Pune, India, the study involved 29 insured and 24 uninsured members of two MFIs using services of the community-based mutual Uplift Health. It compared their experiences with four common procedures requiring hospitalisation: C-section, appendectomy, hysterectomy, and hernia surgery.

Preliminary findings:

- Having health insurance affects which hospitals people go to and when they go.
- The insurance scheme included better-quality providers and effectively guided people to use them.
- The insureds pay less for healthcare than uninsured for the most part.
- Patient satisfaction and reported outcomes are similar.

A notable point in the session was that anthropological factors in Africa must be taken into account in attempts to extend healthcare and measure its quality – specifically the way local people perceive diseases like malaria and diarrhoea.

Micro health insurance providers must go for prevention and treatment, not treatment alone.

These factors also make a client's satisfaction too complex to yield any clear-cut answers. For example, what does satisfy a client who was dehydrated and was unhappy because he did not get any medicine?

Lessons learnt

- Keys to success for a community-based health mutual are education and promotion for clients, training and capacity-building for staff, and synergy among sponsoring partners.
- To offset a financial deficit, focus more on improving collection of fees from customers than increasing fees.
- Monthly contributions are onerous if not collected directly from pay; go for a discounted annual fee.
- Insurance providers can improve the healthcare accessed by poor households by guiding them to better quality health providers.
- Prevention and treatment work better in healthcare than treatment alone.

Parallel session 3

Academic track: Impact of microinsurance

The session discusses the impact of microinsurance as a change, attributable to insurance, in economic or social parameters of low-income clients or their households or communities.

Microinsurance is intended to positively affect poor people's lives. As such, it is destined to complement other development-promoting instruments. However, the mere existence of this objective does not imply that microinsurance is actually able to achieve it. After some years of practical experience with the provision of microinsurance, a formal assessment of the actual impact of microinsurance is now required. This need for research is widely accepted by all stakeholders. There now are about 30 studies on the topic of evaluating the impact of microinsurance.

Health

Grameen Kalyan

Number of people insured

23,794 (up to November 2009)

Insured risks

Health

Premium range

US\$ 2.90–4.38

(paid on an instalment basis)

One such study looked at the Grameen Bank's micro health insurance scheme called Kalyan (Bengali for "village health") in Bangladesh to investigate the relationship between insurance and poverty indicators like household income, per capita non-land assets and the poverty status.

It found evidence, albeit not robust, of a positive association between the scheme and the enhancement and stabilisation of household income, increased investment in productive assets, and reduction of poverty.

Although not all assessed results could be regarded as theoretically sound and pure, the study did conclude with a practical suggestion. The micro scheme in Bangladesh mainly covers areas where government healthcare facilities are not functioning well, and the study proposed that the government contract out its poorly run health centres to existing microinsurers or MFIs. Such an arrangement would avoid duplication of health services costs, save rental or construction costs of new centres, and increase the confidence of both clients and service providers.



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26 — Kim B. Staking, Colorado State University, USA.

27 — Left to right: Syed Abdul Hamid, University of Dhaka, Bangladesh; Ralf Radermacher, Microinsurance Academy, India.

28 — Munenobu Ikegami, International Livestock Research Institute, Kenya.

Agriculture

Index-based livestock insurance, Marsabit Pilot, Kenya

Number of people insured

1,905 (March 2010)

Insured risks

Livestock mortality due to severe drought

Premium range

US\$ 6–11 for insuring 1 Tropical Livestock Unit (TLU) for a year. 1 TLU is equivalent to 1 head of cattle, 0.7 camels, or 10 sheep/goats.

Aside from health, a key unmet need is for micro agricultural schemes to protect farmers against climate-related shocks, a leading cause of production and efficiency losses. A number of innovative index insurance schemes are now designed to offset disadvantages of traditional insurance such as moral hazard. Such a scheme compensates all policyholders in an area whenever a chosen peril index reaches a pre-defined strike point.

In the Marsabit district in Northern Kenya, a pilot index-based livestock insurance project is in its implementation stage with launch planned for February 2010. The contract has been designed and priced for two clusters in the district with distinct risk exposure and the importance of livestock as a productive asset.



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A notable feature of this pilot scheme is impact assessment. A baseline survey, concurrent with the launch, will track a random selection of households in the coverage area – both those opting to purchase insurance and those who do not – for a period of four years. Each respondent will be resurveyed yearly to assess the impact of this microinsurance on a set of key welfare indicators.

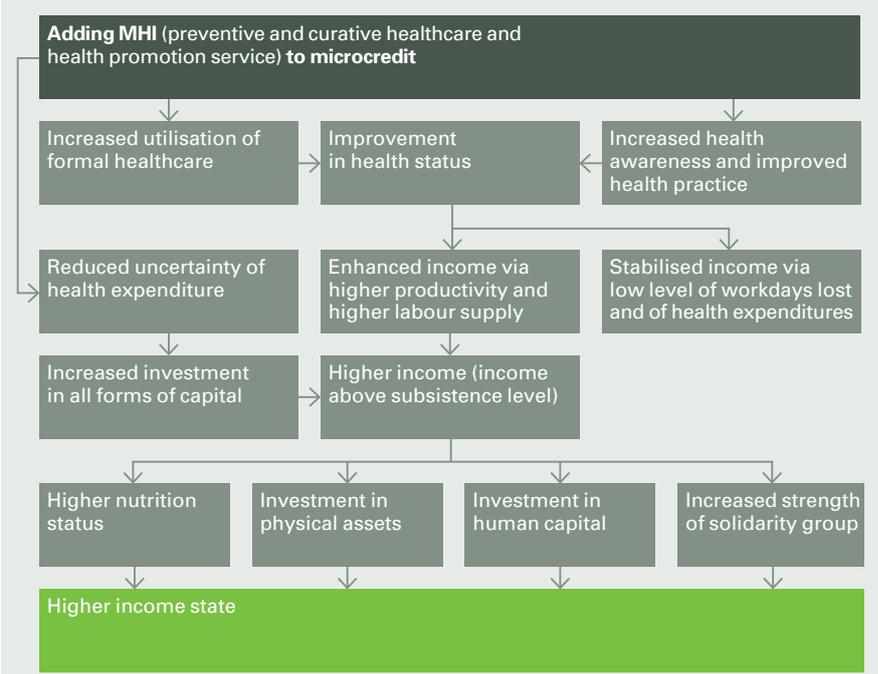
Overall, available evidence tends to support the view that microinsurance can play an active role in poverty reduction, though it calls for further investigation. Limitations of the existing literature stem from geographical concentration on Africa and Asia and the almost exclusive focus – in all but two studies – on health insurance. There, too, the evidence gathered concerns mainly financial protection and healthcare use. The effect of insurance on clients' expenditure on healthcare and poverty status is less clear.

There are also methodological issues. Finding comparable groups may involve a selection bias (insurance is not necessarily offered to all) and self-selection bias (some to whom it is offered do not take it). Few studies so far have applied statistical techniques – such as propensity score matching – to reduce such a bias, leaving a degree of uncertainty as to the causal relationship of insurance and an observed outcome.

The underlying question remains not only whether microinsurance has an impact, but also why it has an impact. A definitive answer would allow a more target-oriented use of specific features that increase the likelihood of the welfare-enhancing effects of microinsurance.

- Lessons learnt**
- Impact of microinsurance can be defined as change, attributable to insurance, of economic or social parameters of insured clients or their households or communities.
 - Difficulties in impact research include how to offset a self-selection bias in the comparability of groups observed. The offer and take-up of microinsurance in a community is not uniform and consistent across the board, contaminating the assessment of results.
 - Existing studies mainly deal with health insurance in Africa and Asia, focusing on healthcare use and financial protection; not much evidence is there on the effect on out-of-pocket healthcare payments and poverty status. There is a need to broaden the scope of impact research to other indicators and lines of microinsurance.
 - Baseline surveys and monitoring and evaluation of results can facilitate the growth of index-based micro agricultural insurance schemes in Africa beyond their pilot phase.

Figure 8
A model of the relationship between micro health insurance and income



Source: Syed Hamid, Jennifer Roberts, Paul Mosley. Presentation "Can Micro Health Insurance Reduce Poverty? Evidence from Bangladesh". 5th International Microinsurance Conference 2009

“Microinsurance aims to benefit a population group that is least knowledgeable about insurance.”

Charles Dan, Regional director for Africa, ILO, Ethiopia

29 — The French translation of the Microinsurance Compendium “Protecting the poor” was released during the conference.

30 — Joselito Almario, National Credit Council, the Philippines, representing the host country of the 6th International Microinsurance Conference 2010.

31 — The conference team of the Munich Re Foundation (left to right): Christian Barthelt, Martina Mayerhofer, Dirk Reinhard, Petra Hinteramskogler and Markus Heigl.

32 — Peter Wrede (left), AKAM, Switzerland, and Aparna Dalal, Financial Access Initiative, USA, two of the 67 speakers and facilitators of the 2009 conference.

33 — The four academic sessions attracted over 100 participants each – a clear sign of the high interest in the results of scientific research on the effects of microinsurance.



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Agenda

Day 2 afternoon sessions 4 November 2009

Parallel sessions	Speakers	Facilitators
Session 4 The African experience Round table: Challenges and opportunities for the development of microinsurance in Senegal	<u>Adolphe Ouedraogo</u> CIMA, Gabon <u>Patrick Kodjo</u> BCEAO, Senegal <u>Aida Djigo Wane</u> AMSA, Senegal	<u>Fatou Assah</u> World Bank, Nigeria
Session 5 Health Financing mechanisms for health	<u>Dramane Batchabi</u> ILO, Benin Solidarity between workers in the informal economy and workers in SMEs with a view to providing access to a health insurance product <u>Pascale Le Roy</u> Consultant, France Third-party payment mechanisms in health microinsurance in developing countries: Lessons learned on design and management <u>Abou Diagne</u> TransVie, Senegal Promoting cost-sharing between workers and employers <u>Saïbou Seynou</u> Ministère du Travail et de la Sécurité Sociale, Burkina Faso Experience with financing mechanisms for health	<u>Caroline Phily</u> ILO, Switzerland
Session 6 Academic track Demand for microinsurance	<u>Susan Steiner</u> University of Manchester, UK More than just credit: Household demand for (micro)financial services in rural Ghana <u>Christiane Ströh de Martínez</u> Free University of Berlin, Germany Remittances, bancarisation and the demand for formal and semi-formal insurance schemes <u>Kelly Bidwell</u> Innovations for Poverty Action, Ghana Addressing agricultural risks: Review of ongoing microinsurance field experiments	<u>Ralf Radermacher</u> Microinsurance Academy, India
Plenary 3 Linking microfinance with microinsurance How can microfinance be a driver for microinsurance?	<u>Craig Churchill</u> ILO, Switzerland Dos and don'ts: Microinsurance recommendations for microfinance institutions <u>Arman Oza</u> Quadrant Consultants Pvt. Ltd., India Converging microfinance and microinsurance: Possibilities, issues and challenges <u>Anna Gincheran</u> Women's World Banking, USA How to enhance service for the clients: Experience from WWB	<u>Dipankar Mahalanobis</u> MicroEnsure, Uganda

Parallel session 4

The African experience: Round table on challenges and opportunities for the development of microinsurance in Senegal

The session notes that, in spite of a number of difficulties and obstacles, Senegal's performance in microinsurance development is noteworthy. A study by the Microinsurance Innovation Facility puts Senegal first in West Africa and seventh in Africa as a whole in terms of successful implementation of microinsurance (the findings were presented by Caroline Phily at *Etats généraux de la micro assurance*, in Abidjan, 22–23 October 2009). Senegal generates 20% of the economic growth of the eight countries that are members of the Union Economique et Monétaire Ouest-Africaine (UEMOA) or the West African Economic and Monetary Union: Benin, Burkina Faso, Guinea Bissau, Ivory Coast, Mali, Niger, Senegal, and Togo.

Microinsurance is nothing new; it is an old story dating back to the origins of insurance. In Senegal as elsewhere people have come together in local communities to meet their financial and risk-protection needs informally. As the concept of microfinance re-emerged in the second half of the 20th century, Senegal chalked up strong experience in its development. A natural extension of that has been the introduction of microinsurance in its present-day configuration.

There are no demarcation lines between microfinance and microinsurance – only the needs to be met by the two are different in the target market. Experience gained in microfinance – which in most countries is the first of the two to establish roots – can be most useful for microinsurance. It is time now to consolidate the strong links between microfinance and microinsurance and, at some point in the future, set up an “insurance bank” through this synergy.

More than 90% of the companies in Senegal are in the category of *Petites et Moyennes Entreprises* (PME) or Small and Medium-sized Enterprises (SMEs). They have two major needs which microinsurance can help meet on the corporate side: working capital and investment capital.

Box 6

Obstacles to the development of microinsurance in Senegal

- The low level of income in the population: there is generalised poverty in African populations with 60% of the African population living on less than US\$ 2 per day.
- Cultural, sociological and religious factors.
- Illiteracy.
- Negative perception of traditional insurers who either delay payment or do not pay at all. In Senegal, since the creation of the CIMA in 1995, four companies have lost their licences; the last such withdrawal was in April 2009. This situation has eroded people's trust in insurers.
- Other factors in play, such as lack of information and an inadequate tax framework.

Source: Ouedraogo, Adolphe. Presentation “Expérience Sénégalaise de la Microassurance: Défis et Opportunités”. 5th International Microinsurance Conference 2009

34 — Aida Djigo Wane, AMSA, Senegal.

35 — Left to right: Adolphe Ouedraogo, CIMA, Gabon; Patrick Kodjo, BCEAO, Senegal.

36 — Fatou Assah, World Bank, Nigeria.



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For individuals and families, micro-insurance can help bring marginalised groups back into the system. That presents an enormous ongoing challenge, in view of the obstacles (see Box 6). Such income is insufficient to meet basic needs, such as food, shelter, clothing and health.

Health mutuals have taken root and now cover 300,000 people. Their prevalence is due in part to the belief that healthcare is a right and not a product that should be profitable.

Over the past 15 years, CIMA (Conférence Inter-africaine des Marchés d'Assurances or the Inter-African Conference on Insurance Markets) has helped treaty countries like Senegal adopt strategies to make microinsurance more accessible and affordable. They include the following:

- Microinsurance can only be developed if it is adapted to the market of the low-income households in terms of costs, conditions, guarantees and channels of distribution.
- Costs can only be reduced if the companies involved in microinsurance use distribution groups to collect funds. An example of this is Allianz Senegal (ex AGF Assurances Sénégal) that has several partnerships with extensive groups of MFIs and NGOs.
- The government could also take measures to amend the fiscal and para-fiscal framework in order to eliminate or decrease taxes for microinsurance.
- In order to make microinsurance more accessible, it is important to use the socio-economic-cultural groups as the target market trusts them.
- Insurance companies need to communicate in an intelligent and innovative manner with the target groups and also propose appropriate products to them.

Lessons learnt

- Senegal is among a number of countries in Africa where micro-finance and microinsurance have been developing rapidly. In particular, health mutuals have a noteworthy presence in Senegal.
- The following measures could help achieve the goal of developing microinsurance further:
 - Intelligent communication in the places where the target population is located
 - Appropriate products that meet the needs of the target groups
 - Utilisation of socio-economic and cultural groups
 - Appropriate legislation for the peculiarities of microinsurance
 - Fiscal and para-fiscal incentives to benefit the insurers and micro-insurance companies

Parallel session 5

Financing mechanisms for health

Maintaining a functioning health-care system involves high costs that need to be financed sustainably. The session discussed three examples of healthcare financing – from Benin, Senegal and Burkina Faso – as well as a study on third-party payment mechanisms.

Benin

In Benin the state, in collaboration with associations of informal workers, set up the Mutuelle de Sécurité Sociale du Bénin (MSSB) to extend the benefits of the social security system to the informal sector, which had been excluded before. In the first phase of the business, the mutual was highly subsidised by the state, but from 2007 on, state subsidies were progressively reduced, management of the mutual was professionalised and a premium scale established. The system now tends to be self-supporting. Remarkably, in the Benin system, premium contributions depend on the financial capacity of the insured. Cross-subsidy takes place from formal workers and their employers. A more professional approach made people more confident in the product; customer satisfaction was high and induced a continuously increasing number of members.

Senegal

The social mutual TransVie in Senegal specialises in insuring workers in the road transport sector who previously had almost no health cover. This financing scheme relies heavily on sharing the premiums between employers and employees. Due to the co-financing mechanism, the quality of the product improved, raising confidence and leading to a slow but constant growth of the scheme.

TransVie benefits from a communal spirit that has enabled it to sustain a high collection rate without the need to suspend cover for members whose contributions are overdue. Its organisation and operations conform to the regulations governing social mutuals in the WAEMU (West African Economic and Monetary Union).

Burkina Faso

In Burkina Faso, a national health insurance scheme is being established based on four principles:

- 1 National solidarity: vertical integration with solidarity between the rich and the poor, the young and the old, and the healthy and the sick.
- 2 Equity and equality of care: a basis package accessible to everybody based on needs rather than income.
- 3 General responsibility of the state: health is a human right and the state defines the access conditions to this right.
- 4 Democratic management of the system: beneficiaries participate in the management which allows social control.

Table 2

Mutuelle de Sécurité Social, Benin

Start of business
2000

Monthly premiums
Informal workers: US\$ 1.23
Formal workers: US\$ 2.05
Employers: US\$ 2.46

Coverage rate
Primary healthcare: 70%
Secondary healthcare: 70%

No. of beneficiaries
In August 2009: 9,800

Recovery rate
About 80%

Table 3

TransVie, Senegal

Start of business
2008

Monthly premiums
US\$ 14.80 per household co-financed by employers and employees

Coverage rate
Primary healthcare: 70%
Secondary healthcare: 90%

No. of beneficiaries
August 2009: about 2,000

Recovery rate
80–90%



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37 — Left to right: Saïbou Seynou, Ministère du Travail et de la Sécurité Sociale, Burkina Faso; Abou Diagne, TransVie, Senegal; Caroline Phily, ILO, Switzerland; Pascale Le Roy, Consultant, France.

38 — Dramane Batchabi, ILO, Benin.

As in Benin, premiums depend on the financial capacity of the insured and the resultant financing gaps are filled by innovative funding through taxes and international partners. To exploit potential synergies, the tools of microinsurance and the social security system are merged into one organisational unit that functions as the overall insurer. The insurer pools all resources and reallocates them according to the needs of the population. Importantly, the insurer delegates tasks to other units according to their competencies. For instance, one such unit is the third-party administrator who ensures that the cashless provision of services to the insured functions properly.

Generally, the third-party payment (TPP) is an important instrument to lift financial barriers when insured people want to access care.

With TPP, the insurer pays the health-care provider directly for services used by the insured. According to an online survey on the implementation of TPP, most of the schemes use TPP and only 23% rely solely on reimbursement, primarily because of the unavailability of high-quality care providers and a lack of knowledge about TPP. Major challenges in the field of TPP are to guarantee quality of care of partner providers, to manage the risk of moral hazard and fraud, to pay providers on time and to manage the flow of information within the system. There are already a number of possible solutions for dealing with these challenges. Lessons learnt about advantages and disadvantages of TPP are detailed in the tables below.

Table 4
Advantages and disadvantages of TPP in health microinsurance

	Advantages	Disadvantages
Insured	<ul style="list-style-type: none"> — May effectively enhance access to healthcare services — May reduce delay before seeking healthcare — Removes need for substantial paperwork to submit claim 	<ul style="list-style-type: none"> — May restrict the choice of providers
Insurers	<ul style="list-style-type: none"> — May increase the scheme’s attractiveness and therefore the risk pool and its financial viability — May simplify claims management — Depending on the provider payment mechanism, may permit part of or the entire financial risk to be shifted to the healthcare provider 	<ul style="list-style-type: none"> — May increase moral hazard and risk of fraud from healthcare provider, therefore the costs of the scheme, and threaten its viability — May encourage insured patients to over-use services for patients
Health providers	<ul style="list-style-type: none"> — May increase utilisation of the facility (captive patients) and therefore generate additional revenue — May increase patients’ solvency in the target area — Depending on the payment mechanism may generate stable flow of revenue — May stimulate quality of healthcare 	<ul style="list-style-type: none"> — Depending on the payment mechanism, may entail a financial risk — May create an additional administrative burden associated with eligibility control and claim preparation — Increased control on its quality of care and accounting system

Source: Garand, D., Wipf, J. “Performance Indicators for Microinsurance: A Handbook for Practitioners”. ADA, BRS, Microinsurance Network 2008

Box 7
Four types of third-party payment

- 1 Retrospective fee for service
- 2 Retrospective per case/lump sum
- 3 Retrospective per day
- 4 Prospective per capita

Source: Pascale Le Roy. Presentation “Third-party payment (TPP) mechanisms for cashless access in health microinsurance”. 5th International Microinsurance Conference 2009

Lessons learnt

- Professional management of the insurance scheme and the high quality of the products are drivers of customer confidence and satisfaction.
- Relating premiums to the financial capacity of the insured and thereby cross-subsidising between different segments of members is a promising approach in extending insurance coverage.
- Including employers in healthcare financing is useful in creating sustainably financed insurance schemes.
- Third-party payment mechanisms provide a powerful instrument in lifting financial barriers when insured people actually want to use services covered by the insurance; this also contributes to raising confidence and satisfaction.

Parallel session 6

Demand for microinsurance

The session analyses the determinants of microinsurance purchase and explores how to increase take-up in low-income households.

Microfinancial interconnection

A first study entitled "More than just credit: Household demand for (micro) financial services in rural Ghana", explores the country's rural households' participation in the microinsurance market, and the determining factors of the households' demand for microinsurance. This study assumes that a household's choices of insurance, savings and credit services are interrelated. Empirical studies usually concentrate on one or the other of the three services but not on the relationship among them.

The survey data involved 350 households in two villages, named Brakwa and Benin, in Ghana, and five providers including an insurer, an MFI, a cooperative, a commercial bank, and a rural bank. The microinsurance on offer was term life up to age 60, accident benefits, hospitalisation benefits, and a voluntary savings scheme.

The main finding of this study is that "insuring" in the sense of risk management can be performed by other types of financial services and arrangements. The study also found that

- education level, asset endowment and regular employment status enhance financial services uptake;
- poorer households are more likely to be excluded from the formal financial sector;
- remittances increase the available financial resources for savings but act as substitutes for insurance;

- households that feel more exposed to risks are less likely to use financial services;
- past experience of shocks and more land holdings strongly increase the use of loans;
- trust in the financial institution and its staff seems to be of utmost importance.

A second study "Remittances, Bancarisation and the Demand for Insuring Schemes" explores the relationship between the different mechanisms poor people use for mitigating risk and dealing with damage. Formal and informal financial instruments are part of the coping mechanisms that can be applied before or after damage occurs. The study also analyses the effects of "bancarisation" (that is, the utilisation of banking facilities) on the usage of formal insurances and the impact of receiving remittances.

The research employs "a unique database", the FinScope surveys in South Africa, on the usage of formal and informal financial services, preferences regarding risk management strategies and sources and level of income including remittances. The analysis shows that households are more likely to possess formal funeral cover if their income is higher. However, when households receive remittances, they are less likely to possess formal funeral cover. Accordingly, the substitution effect dominates the income effect in the case of formal funeral cover. The substitution effect also applies to other financial services that can help people to cope with a shock.

Table 5
Use of financial services in Ghana

	Proportion (%) in survey area
No service	62.4
Savings	17.6
Credit	0.4
Insurance	0.7
Savings and credit	12.0
Savings and insurance	3.3
Credit and insurance	0.1
All three services	3.5

A survey of rural households in Ghana found that two out of three used no financial service and only one out of 25 had insurance – a huge market gap and opportunity for microinsurers.

Source: Susan Steiner. Presentation "Participation in micro financial markets: The use of insurance, savings, and credit in rural Ghana". 5th International Microinsurance Conference 2009

Furthermore, households are less likely to possess formal funeral cover if they intend to take an informal loan to smooth any income shock and if the household members interact regularly with a bank. This does not, however, apply to informal insurance arrangements. Membership of burial societies is shown to depend on influences other than income, remittances or bancarisation. It might also be the mutual psychological and organisational support by the members of burial societies that influences the decision to join and remain in a burial society.



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39 — Susan Steiner,
University of Manchester, UK.

40 — Left to right:
Kelly Bidwell, Innovations
for Poverty Action, Ghana;
Christiane Ströh de Martínez,
Free University of Berlin,
Germany.

While showing the importance and variety of financial instruments for managing risk and dealing with loss or damage, the study notes that many microfinance providers still fail to offer specific risk management services adapted to insureds' needs. Low-income people use combinations of formal and informal financial arrangements – for covering their financial management needs including insurance – but the decision to make use of a formal insurance mechanism is different from the decision to join an informal risk-management arrangement. Notably, in the case of informal insurance arrangements, trust and non-monetary services play an important role. Therefore, formal insurance providers should focus on how clients perceive its reliability.

Agricultural insurance

There have been a number of advances in agricultural microinsurance in recent years, such as the use of index insurance, meteorological technology, and mobile phone and outreach networks. However, the take-up is still low and supply limited. In this context, a third study explores the following questions: why do farmers not invest more in agriculture, what is the impact of agricultural insurance, and how can microinsurers encourage demand? The few completed microinsurance field experiments include those carried out in Malawi (rainfall insurance), India (index-based rainfall insurance) and Ghana (loan insurance with a rainfall insurance component).

Among their findings are:

- There was lower take-up for loans with free weather insurance than for loans without insurance.
- Timing is crucial and affects the purchase of insurance, as agricultural results depend on the harvest, which is different every year, and finances are tight and linked to unpredictable cycles.
- Periodic visits by a sales representative increase the likelihood of take-up.

As much as 52% of Ghana's population lives in rural areas and 44% of the rural population lives below the poverty line, the majority being small-scale farmers.

An ongoing research project in northern Ghana, using a sample of 500 maize farmers, has shown that insurance unattached to credit is easier for them to understand and accept. During the current first year there was a 100% take-up of free rainfall insurance and a high level of understanding among them. Over the next two years the product will be offered for a small price. The aim is to understand the farmers' willingness to pay for rainfall insurance, and whether the fact that the product was once offered free affects the perception of insurance.

The research begs the question of regulatory issues, as products offered free of charge are not provided by an insurance company but by an NGO supported by the National Health Scheme of Ghana.

Coupled with abject poverty where a financial service is unaffordable at any price is another root cause of low take-up: lack of financial literacy. Education should underpin all efforts to encourage demand.

Lessons learnt

- Take advantage of the relationships between financial instruments and between formal and informal products, as they are a source of trust.
- The low use of financial services in poor communities presents a challenge and opportunity to policymakers and providers, who need to note that price matters, marketing matters, trust matters.
- Remittances and other risk-management devices replace insurance, and poor households use a variety of financial instruments. Accordingly providers should offer specific and differentiated services.
- Trust and reliability play an important role in the choice of a formal over an informal insurance mechanism.
- Farmers lack capital and may lack access to credit. Marketing and sale of agricultural microinsurance should be tied to harvest cycles affecting their income and ability to pay.

Plenary 3

Linking microfinance with microinsurance

The session noted that microfinance provides a good entrée for microinsurance. Many large MFIs have integrated microinsurance into their business models. Small and medium-sized MFIs have also done so, but to a more limited extent, and they have rarely been able to go beyond credit life.

Links between the two micro industries have existed ever since popularly-based organisations and then development circles noted that a primary way of protecting a poor family is for an MFI to “let a debt die with the debtor”. The question is how to optimise the synergy between the two micro sectors.

For insurers microfinance is just one channel through which to reach the low-income market, but it is an important channel that experience shows should be utilised more effectively. If MFI managers understand basic insurance concepts, and structure their engagement with insurance more strategically, they can benefit themselves and their clients.

MFIs have four institutional options to structure their insurance services: self-insurance, partner-agent model, microinsurance broker, and creating an insurance company.

Self-insurance seems to be suitable for basic products and for larger MFIs with sufficient technical expertise provided there is a type of catastrophe cover in case of a disaster.

The partner-agent model theoretically sounds nice because every party involved seems to benefit from it: the insurance company gets access to a new market that it is unable to access on its own, the MFI generates revenue from the insurance sales and protects its loan portfolio, and the customer gets access to insurance. However, in practice a partner-agent model is challenging and requires each

party to have a deep understanding of the other’s core competencies and culture (see Box 8). This is where a microinsurance broker can be helpful, bringing the delivery channel and risk carrier together. Creating a new insurance company is the fourth option which requires a high level of investment and a lot of expertise from the MFI.

Microfinance and microinsurance each serve a different set of needs of an individual, family or community, and each complements the other. Even for risk control and management, they go well together: credit and savings can be used to mitigate losses of high frequency and low severity while insurance is useful for low-frequency, high-severity perils. In combination, they can provide a package of financial and risk management solutions that improve each provider’s capacities and opportunities, resulting in

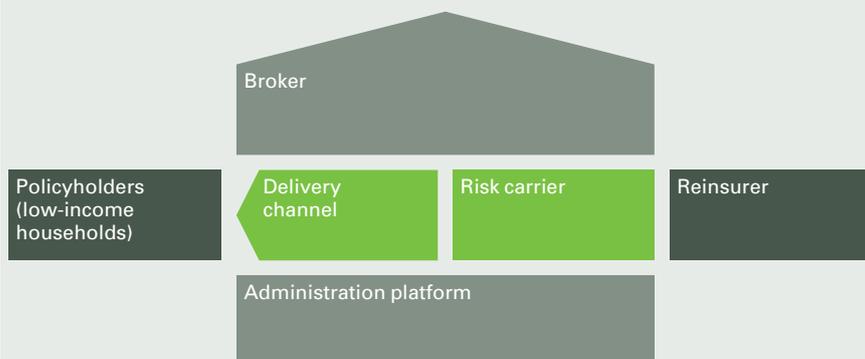
- up-selling of microfinance with bigger and more secure loans;
- up-selling of insurance with more and higher-valued insurance products.

In addition, at operational level an MFI can be a driver for microinsurance by enabling regulatory requirements to be met, in particular minimum capital requirements. In such an agreement, the MFI can assist with attaining the level of capital and reserves the insurer must maintain to continue carrying risk while the insurer provides the technical expertise to tap into the low-income market.

Figure 9

Microinsurance supply chain

An MFI offering microinsurance serves as a link in a chain of players.



Piggy-backing microinsurance on an MFI's services appears natural as it is regarded as an obvious extension of microfinance – though it calls for different approaches both at the conceptual and operational levels. While there is substantial committed demand for credit and other finance services, demand for insurance needs to be created and nourished. Generally and usually, microcredit is requested but microinsurance is sold. Moreover, at the point of sale an aversion to insurance has to be overcome because it is a benefit that is not only distant but contingent and intangible. An MFI's front-line staff will be better able to sell insurance to clients if they themselves have insurance. Retailers have long seen the value of "putting your money where your mouth is", and often overcome a customer's hesitation by saying, "I myself have one of these at home and it works wonders!"

Operationally, if an MFI embarks on microinsurance only as an add-on to loans it can wither away as debts are repaid. Going beyond credit life insurance is necessary to seize the opportunity to create a culture of insurance among low-income people. However, an MFI must first develop the capacity to offer stand-alone as well as integrated products and a well-thought-out plan and strategy are needed to drive synergistic business models that would be mutually advantageous – for the MFI as the provider of insurance along with finance services, and for its clientele.

In addition to reviewing whether and how a range of insurance products for their clients fits into their overall mission and objectives, MFIs should consider their own corporate insurance needs, such as vehicles, property, fidelity, and money storage and handling.

Among MFI clients, the insurance product in the greatest demand is perhaps health. Illnesses can cause a major problem for the MFI, too, as they affect its loan portfolio. But healthcare is one of the more complex insurance lines, and hard to manage even for an experienced insurer. If MFIs do offer health, they should focus on a more basic cover like hospital cash or a health savings account for small, frequent healthcare expenses.

Whichever institutional option they choose, a prerequisite is to have more than a marginal knowledge of the insurance business. This is true even when there is expertise accessible – in a broker or partner-agent arrangement.

Often, MFIs cannot exploit their goodwill in negotiations with a broker or insurer because of insufficient knowledge of insurance. They should on their own monitor the data on insurance take-up and premium levels, on claims costs and frequencies, and on the operating profit or loss for the insurance line. This would put them in a stronger bargaining position during negotiations for the renewal of a contract with a broker or insurer. That is one reason, besides any regulatory requirements, why MFIs should keep bookkeeping and management of their insurance services separate and isolated from their mainstream operations. The note of caution in keeping insurance separate is not to let it be neglected. More than a few MFIs have learnt that insurance as a forgotten cousin can quickly tarnish their name if even only one client in a close-knit community has a bad experience with it.

Box 8 Making the partner-agent model work

- 1 Tell them what you want
- 2 Choose a trustworthy insurer
- 3 Involve the insurer in understanding customer needs
- 4 Manage claims
- 5 Create a review committee
- 6 Eliminate exclusions
- 7 Maintain and analyse data
- 8 Determine the costs
- 9 Own the clients
- 10 Share the profits

Source: Craig Churchill. Presentation "Microinsurance and MFIs". 5th International Microinsurance Conference 2009

Lessons learnt

MFIs contemplating offering microinsurance need to

- reflect on their objectives;
- develop in-house expertise;
- actively manage their microinsurance scheme, even in a partner-agent arrangement, because their reputation is at stake;
- consider how to ensure that low-income households appreciate insurance and are willing to pay for additional benefits;
- educate and persuade front-line staff that insurance provides value for clients and the MFI, and that they themselves can gain from having the same protection.

Plenary 3

Linking microfinance
with microinsurance**Two examples of Women's World Banking's experience with the partner-agent model**

Women's World Banking is the largest network in microfinance, built up over 30 years. Network members are 40 microfinance providers in 28 countries that serve more than 20 million clients who are predominantly female. It has US\$ 4.2bn in its outstanding loan portfolio with an average loan size of US\$ 955. Three out of four of the network members offer micro-insurance to their clients. Box 9 and 10 recap two of these cases.

Box 9**Case study from Latin America:
Mutually Reinforcing Alliance****Policy description**

- Life insurance policy that includes cover for death, permanent and total disability, serious illness, funeral assistance, education assistance
- Provided to the MFI clients on a voluntary basis
- US\$ 1.49 annual premium for up to US\$ 3,009 cover
- Total of 108,873 policies sold in the three-year period

**Implementation
(one-year period)**

- Significant renewal rates: 40% of clients renewal rate vs. 80% retention rate for microcredit
- High utilisation: Number of claims quadrupled in the second year, claims rejection rate decreased
- Continuous product refinement: Expanded the list of serious illnesses covered
- Clear accountability: Insurance Product Manager hired by the MFI to provide support to clients filing claims and assist field staff in promoting the policy
- Bonus scheme introduced providing incentives for loan officers to sell insurance
- Comprehensive training for all MFI staff.

Box 10**Case study from Asia:
A policy too "perfect"?****Policy description**

- Comprehensive health insurance policy via partnership between the MFI, the insurance company, a network of private hospitals and primary clinics
- Voluntary coverage for the borrower and family: US\$ 4 pp (ind. policy) to US\$ 2.5 pp (family policy)
- Comprehensive hospitalisation coverage, including maternity
- Not covered: ambulance services, medications
- Cashless system, cards to be issued for each policyholder
- Pre-authorisation to be given by the insurance company within two hours of the patient entering the hospital
- 4,095 policies sold through six branches
- 5,815 clients educated by the MFI staff (presenting the product and preventive health education)

**Implementation
(one-year period)**

- One-two months' delay in card issuance by the insurer
- Low utilisation of primary care clinics (closed evenings and weekends)
- Low utilisation of hospital services (very few hospitals in the area, high transportation costs to get to hospitals, pre-authorisation takes a long time)
- No support for customers at hospitals, no help desk
- High out-of-pocket costs for medications and tests during hospital stays
- Lack of customer service by the insurance company
- The programme has been discontinued!

Source: Gincherma, Anna. Presentation "How to enhance service for the clients: Experience from WWB." 5th International Microinsurance Conference 2009

Lessons learnt**Case study from Latin America**

- Design client-centric product, marketing and customer education programmes
- Build MFI's capacity to provide microinsurance
- Ensure regular communication
- Identify accountable parties on both sides

Case study from Asia

- Tailor product to customer needs and payment capacity
- Ensure quality service by all parties and at each step
- Define clear partnership terms from the outset
- Ensure the programme's viability

Agenda

Day 3 morning sessions 5 November 2009

Plenary 4	Speakers	Facilitators
Academic track What we know and what we need to know about microinsurance	<u>Kelly Bidwell</u> Innovations for Poverty Action, Ghana Introduction Panellists <u>Jeremy Leach</u> Hollard Insurance, South Africa <u>Arup Chatterjee</u> IAIS, Switzerland	<u>Richard Phillips</u> Georgia State University, USA
Parallel sessions		
Session 7 The African experience How to reach the low income market	<u>Janice Angove</u> Quindiem Consulting, South Africa Experiences of traditional insurers in the microinsurance market in Southern and Eastern Africa <u>Charles Mutua Wambua</u> Swedish Cooperative Centre, Kenya Marketing microinsurance products: Challenges and solutions <u>Oumar Savadogo</u> Confédération des Institutions Financières de l'Afrique de l'Ouest, Burkina Faso What risk-management needs do the customers of MFIs have and how can they best be met?	<u>Jeremy Leach</u> Hollard Insurance, South Africa
Session 8 Health Management issues	<u>Denis Garand</u> Consultant, Denis Garand and Associates, Canada Pricing health microinsurance <u>Peter Wrede</u> Microinsurance Specialist, AKAM, Switzerland The importance of renewal, and the benefit of customer loyalty <u>Wei Zheng</u> Associate Professor, Peking University, China Efficiency assessment of China's NRCMS and its implications for microinsurance in developing countries	<u>Gabriele Ramm</u> Consultant to GTZ, Germany
Session 9 Linking microfinance and microinsurance Operational lessons and experiences	<u>Sameer Kwatra</u> ICICI Prudential Life Insurance Co., India Value creation through bundling microinsurance with microfinance: Creating a long-term impact <u>Tewabe Aysheshim</u> Amhara Credit and Saving Institution (ACSI), Ethiopia ACSI's move towards providing microinsurance services to the poor: Exploring opportunities and current challenges	<u>Brigitte Klein</u> GTZ, Germany

Plenary 4

Academic track: What we know and what we need to know about microinsurance

Microfinance has been around for 20–30 years, microinsurance only 5–6 years. It will take time to mature, and requires patience. Meanwhile, an academic sense of basic issues and questions raised by studied cases will deepen our understanding and help us develop correctly designed strategies. Results of pilot projects in Ghana, Malawi and the Philippines provide the backdrop for the session's discussion of how microinsurance needs to be approached and how its real impact might meet expectations.

A good starting point is to address four questions:

- Is microinsurance as a panacea no more than a band-aid for a gunshot?
- Is the microinsurance entry point questionable?
- Would the expected impact take a much longer term?
- Is the design not optimal?

Band-aid for a gunshot?

In mainstream economies, insurance unlocks all kinds of other markets. It is an enabler that makes a lot of things possible for businesses and people alike.

However, at the bottom and low-income levels of the market, the idea of insurance is just not enough to change behaviour. The absence of insurance is not the only cause of financial deprivation and the link to underinvestment is not there all by itself. Are there are too many other obstacles to consumption and investment, so much so that mitigating the risk just does not achieve anything?

Moving from informal mechanisms of managing risk – done for thousands of years – to formal mechanisms will take a great deal of trust, understanding and experience.

In Malawi, Innovations for Poverty Action (IPA) offered farmers two products: one combined credit and rainfall insurance, which was fairly priced (actuarially fair plus administration costs), and the other credit without rainfall insurance. The result was lower consumption of the first product. Where was the demand? Did farmers really understand what was being offered? Did they already see the loans as having rainfall insurance implicitly embedded?

In Ghana, loans were made available to farmers with crop price indemnification (50% of the loan was forgiven if the official crop price fell below a certain threshold). The key question was: does the mitigation of crop price risk encourage borrowing for agriculture or other investment decisions? The product was designed to be simple so farmers would understand it. Results showed a large demand for credit overall, but no difference in demand for credit with a free indemnity clause.

Another project in Ghana is designed to examine underinvestment in agriculture and the impact of rainfall insurance on it. In the first year, ending in November 2009, rainfall insurance was offered free and there was 100% take-up. In the second year a small fee is being charged, and in the third year a fair premium will become payable. Take-up and demand differences over the three-year period will show, among other factors, the farmers' willingness and ability to graduate to a formal mechanism.

Wrong entry point?

An experiment shows that the manner in which information on the probability of risk is communicated determines how a prospective client views the likelihood of a loss rather than any statistics in relation to its occurrence.

If farmers, steeped in traditional ways and beliefs, are unmoved by the technicalities of insurance and disinclined to understand the reasoning, let alone to respond to an offer, the question arises as to whether the farmer is the wrong entry point for microinsurance.

Should the lender be insured, rather than the farmer?

The problem then would be the message to farmers to avoid default regardless of rainfall. What will they learn? How would this affect the following year?

Longer term?

Changing from informal financial dealings to a formal mechanism is a long-term measure – for microinsurance more so than microfinance. It requires

- social learning;
- seeing it to believe it;
- higher levels of training and education;
- longitudinal studies to measure the long-term impact on consumption smoothing, increased incentives for investment and risk-taking, and increasing growth rates in household income.

A key problem when measuring impact involves two questions: How did the lives of the people change? How does this change compare to how their lives would have changed had they not had insurance? The first question is fairly straightforward to answer; the second much tougher.

How much better is insurance in changing people's lives? A study in the Philippines on health insurance is designed to provide some answers. In addition to the impact of offering health insurance, it also examines whether requiring health insurance mitigates adverse selection.

The study involves randomised control trials, generating a comparison group that does not have a self-selection bias or a targeting bias, and experiences some outside factors. The setting is the Green Bank of Caraga where 6,248 clients are randomly assigned to one of three groups: required to buy health insurance, unless they already had it (1,534); offered health insurance (1,590); and the control group with no offer of health insurance (3,124). Initial results show no adverse selection, rather the opposite. Despite a lower take-up, the voluntary group has higher total claims. Is the implication that the product, if made mandatory, is not valued? Or is it that the product was not understood? Or not used?

Design not optimal?

Consumption of insurance will not change the initial wealth of the individual. In theory “any risk-averse individual will demand full insurance when it is offered at actuarially fair premiums”. Do microinsurers offer products at fair prices?

Price does matter but any price could be too high for those in extreme poverty. Without past experience and knowledge, trust is paramount. Nothing promotes an understanding of risks as an insured peril occurring in a community (the demonstration effect). As word of mouth in the community carries the biggest weight, could microinsurance be designed so moral hazard and adverse selection are solvable through a community pool/allocation system? In health markets in particular, advantageous selection is also viable, as borne out by the study in the Philippines.

It would be advisable to incorporate the informal networks, such as the credit and savings networks, into the microinsurance networks. Visits from a marketer/surveyor increase the likelihood of take-up – as does a link with the local NGO, by as much as 10%.

The ability to purchase is specific to each context/crop/season/region. The design of products should also take into account the need to have policy periods and renewals coinciding with the irregular income of informal workers.

Products must be simple. If the products are poorly understood there is a lower likelihood of any impact or behaviour change. Microinsurance bundled with microfinance did not show potential in Malawi and Ghana. A well-designed stand-alone product has a high take-up. What mainstream insurers class as microinsurance usually carries a high value in the lives of the insured.

While it is important to design products at a fair price, it also important to consider who pays or carries the cost of “free” products. The effects of “free” products are relative, as they might lead people to make wrong assumptions about insurance. They may reinforce the expectation that the government will step in to help if there is a loss. Nevertheless, they do build an awareness of insurance, which is important from the regulatory perspective.

It is important to assess whether products are appropriate within the regulatory framework. Mainstream insurers have commercial motives to participate in a microinsurance market. The disincentive of low premium incomes from that sector can be offset with appropriate tax exemptions. Industry associations can gather and supply accurate data to help microinsurers set fair prices.

Lessons learnt

- Take-up is low for loans with free and actuarially fair weather insurance, but high for free stand-alone simple products.
- Without experience, knowledge or trust, even free products are a source of concern and can be confusing.
- Price does matter but any price is too high for people in extreme poverty.
- Farmer finances are tight and linked to the agricultural cycle. Ability to purchase and cash availability are specific to each context, crop, season and region. Visits by a marketer/surveyor increase likelihood of take-up.
- Timing affects take-up and amount of protection purchased.
- The link between the insurance model and the beneficiary’s view of risk is important; so is the link with a local NGO.

41 — Left to right:

Kelly Bidwell, Innovations for Poverty Action, Ghana;
Arup Chatterjee, IAIS, Switzerland;
Richard Phillips, Georgia State University, USA; Jeremy Leach, Hollard Insurance, South Africa.



Parallel session 7

The African experience: How can the low-income market be reached?

The session underscores the increasing awareness that the provision of insurance products to the low-income market can be profitable for traditional insurers. The market potential is huge and markets are still at a low level of development.

What is also widely accepted is that microinsurance is not just downscaled regular insurance, but requires a deep understanding of the peculiarities of the low-income market, adaptation of products to the specific needs of the target market, and a well-designed marketing programme to attract, retain and satisfy customers.

From the available experience, key factors for success are the establishment of strategic partnerships, demand-creating and cost-saving measures like slotting into existing social practices, educating consumers and offering high-quality, cost-effective services.

Marketing microinsurance products is a challenging task, and this is particularly true for voluntary insurance. It is difficult to convince low-income people that they should allocate part of their very limited resources to insurance. Often, the poor tend to think in the short term, misunderstand or distrust insurance and prefer to buy tangible assets. In addition, sales representatives have difficulty closing the sale, mainly because completing the offer is not simple. Low-income people, like everyone else, dislike complicated processes. Each part of the marketing programme should be designed to facilitate the final step, making it easy for the customer to sign up.

In Kenya, success in marketing microinsurance is demonstrated in a project supported by the Swedish Cooperative Centre (SCC), an NGO involved in long-term development projects to help alleviate poverty. The initiative brings together two institutions: the Cooperative Insurance Company (CIC) serving the cooperative movement and the government's National Hospital Insurance Fund which offers family cover for medical risks in mission and public hospitals. They built a strategic partnership "Bima ya Jamii" (insurance for the family) to serve the low-income population. For an annual premium of US\$ 50 per family, hospitalisation, accidental death, loss of income due to disability and funeral expenses for the member are covered by this scheme.

The scheme was estimated to have over 18,000 policyholders as at the end of 2009 and for 2010 an increase to 200,000 is projected by covering members of the savings and credit cooperative societies (SACCOS).

With hospitals that deliver medical services and other organised groups like SACCOS that distribute the product to their captive customer bases and collect the premium, a complete model was built where every party can focus on its core competencies. The main objectives of the products were to address the adverse culture and affordability problems. This was achieved by covering whole families and forbearing age limits and exclusions for chronic illnesses. By meaningful marketing with branding and advertising via local radio, genuine customer value was successfully created. A sound system of commissions, bonuses and gift vouchers means that each party has a direct incentive to do its best, and this further contributed to the considerable success of this project.

Challenges in reaching the low income market include

- lack of familiarity/adverse culture;
- short-term view;
- desire for tangible products;
- distrust of insurance;
- competing interests for limited resources;
- bad experiences with collapsed insurance companies and misunderstood exclusion cases;
- institutional barriers:
 - Insurer level: trapped into conventional ways of marketing, disinterest due to low premiums that require high volumes to be profitable;
 - Delivery channel level: not core competency and lack of experience; not everyone is a marketer; sales skills lacking.



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42 — Left to right:
Janice Angove, Quindiem
Consulting, South Africa; Jeremy
Leach, Hollard Insurance,
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Confédération des Institutions
Financières de l'Afrique de l'Ouest,
Burkina Faso.

43 — Charles Mutua Wambua,
Swedish Cooperative Centre, Kenya.

Among solutions to reach the low income market are

- creating incentives along the value chain;
- training the sales personnel;
- continuous monitoring and improvement of the business process;
- building strategic partnerships that facilitate access to markets and create synergies;
- branding of the product.

In West Africa members of the Confédération des Institutions Financières de l'Afrique de l'Ouest (CIF) network now have access to a standard, uniform life-cover product for loans (see Box 11). This was made available following an "action-research project" to respond to risks faced by borrowers that may jeopardise the financial stability of partner MFIs.

The project also recommended establishing a life insurance company licensed by the supervisory authorities in the CIMA zone (Conférence Inter-africaine des Marchés d'Assurance) to cover risk-management needs of MFI customers. A key factor behind this recommendation was the need to separate the management of microfinance and microinsurance operations.

Box 11

The "Confédération des Institutions Financières de l'Afrique de l'Ouest" (CIF)

- Cooperative movement built on a solid partnership of six networks in five West African countries:
 - RCPB, Burkina Faso
 - FUCEC, Togo
 - FECECAM, Benin
 - NYESIGISO, Mali
 - KAFO JIGINEW, Mali
 - PAMECAS, Senegal
- US\$ 1.2m capital owned by the cooperative
- 2.2 million members, 40% women
- Assets of US\$ 496m, US\$ 332m savings, US\$ 293m credit
- 653 branches with 5,895 volunteers
- Covers more than 50% of the microfinance market in West Africa
- Licence in February 2008, launch of business in January 2009
- Operates in a uniform environment with the same currency, legislation on microfinance and microinsurance

Tasks

- Financial supervision
- Financial product development
- Technical administration
- Management, education

Source: Oumar Savadogo. Presentation "Besoins de gestion des risques pour les clients des IMF et comment y répondre au mieux: Cas des IMF de la CIF". 5th International Microinsurance Conference 2009

Lessons learnt

- To overcome barriers to moving downmarket, mainstream insurers need to change strategies and mindset to better understand the microinsurance market, as well as product design and distribution channels for low income clients.
- "Marketing is not the art of finding clever ways to dispose of what you make. It is the art of creating genuine customer value." (Philip Kotler). Focus on the customer's perceived value of the microinsurance product and how it relates to sales.
- From the customer's perspective, a marketable and well-branded product is flexible and provides freedom of choice.
- Incentives along the value chain equal growth.
- Closing the sales, make it easy for the customer to sign up.
- Monitor the market response and make improvements.
- MFIs should separate the management of microinsurance from their own operations.

Parallel session 8

Health: Management issues

The session focuses on key aspects of good management. A well-managed healthcare plan will cost less to operate, enable the microinsurer to keep premium rates affordable and help attract an increasing number of customers. However, the focus of marketing and managing operations in most plans is the initial sale and new transactions. Not enough attention is paid to renewals – which an increasing number of microinsurance practitioners are finding to be the single most important performance indicator that correlates with sustainable growth.

This conclusion is borne out by the two years of experience in health insurance of the microinsurance agency started by the Aga Khan Agency for Microfinance (AKAM) in Pakistan.

Growth despite a low renewal rate will not last long. Studies – on performance indicators by the Microinsurance Network and on health insurance schemes by the ILO – have shown that low renewal ratios are due to the plan not meeting the real needs of the insured, poor service at provider hospitals, and a lack of understanding of insurance. High renewal rates show that the insured value the benefit, are committed to financing their healthcare needs, and find the premiums affordable and the service acceptable.

In Pakistan several AKAM-supported schemes have hospitalisation insurance attached to microfinance loans. Customer satisfaction surveys showed that, despite overall satisfaction with the insurance, reasons for discontent included

- unclear understanding of benefits, exclusions and procedures;
- affordability (of single upfront premium);
- extent of cover;
- proximity of network hospitals.

To deal with these concerns, the providers decided to

- communicate better and continuously;
- understand people's worries and offer solutions (e.g., monthly premiums);
- give them a bit of what they want, in addition to what they need;
- reinforce initial acceptance (with peer comfort, and a post-sale customer loyalty strategy).

In a different rural, village-based scheme, in Gilgit, northern Pakistan, the product offered has broad insurance cover (including maternity, pre-existing conditions and no age limits), is semi-voluntary (50% of the village must participate), and has a single upfront premium of US\$ 5 per year for everyone. The first annual enrolment insured 6,000 lives and the second 20,000. The provider offered a renewal reward: a 20% increase in the maximum benefit limit. It turned out to be a nominal incentive that went unutilised – but not unnoticed, as it helped achieve a 47% renewal rate.

AKAM believes that not enough attention is being paid in microinsurance schemes to a strategy for renewals. Its own experience points to a number of good reasons why management needs to focus on renewals (see Figure 10).

- Renewal clients know the product better and can serve as multipliers and ambassadors in their communities;
- Renewal is easier to handle than new enrolments: key data is already there;
- Brand loyalty can be expected beyond graduation from poverty;
- The concept of Customer Lifetime Value, i.e. the present value of the future cash flows attributed to the customer relationship, may well make sense in microinsurance as well – for example, giving a benchmark for appropriate acquisition expenses.

Pricing

As keeping an existing customer costs less than acquiring a new one, renewals help prevent the cost of administering and distributing the plan from increasing unduly – a cost that is a key component of the pricing.

Micro schemes for health insurance have to price their product with little or no historical and actuarial data. The premiums they charge have to cover, in addition to administration and distribution, three other costs: the plan benefit, reinsurance and a surplus. A budget would project these, and then actual results monitored and compared with projections.

The cost of the benefit is the most difficult to price. The provider should start by analysing the population data available from government and international sources, and use this baseline to project and compare the cost for its own target group. WHO statistics, for example, indicate that the healthcare cost has three equal components: pharmaceuticals, physicians and test, and hospitalisation. The first two – medicines and doctor's visits – are the high-frequency, low-cost part of health insurance, while the third – hospitalisation – is the low-frequency, high-cost part. It is important for a provider to capture accurate data as the plan unfolds and maintain the database in sufficient detail to be able to monitor and compare results.

44 — Left to right:
Wei Zheng, Associate Professor,
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Consultant, Denis Garand and
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It is normal for a new plan to create a deficit in the first year or two, but sound pricing should produce a break-even over the medium term.

China’s rural medical cooperatives

In China the New Rural Cooperative Medical System (NRCMS) started with a pilot in 2003 and by 2008 it covered 91.5% of the rural population. It is financed at county level, focuses on large in-patient expenditure, and is subsidised by the central government to varying degrees in different regions.

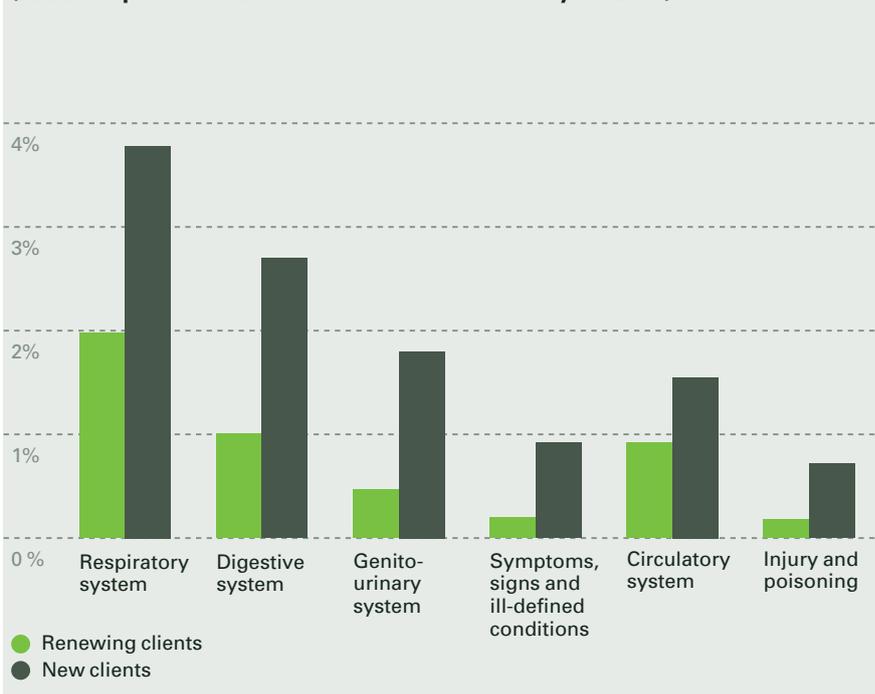
A study evaluating 30 province-level NRCMS units from 2005 to 2007 found that their efficiency was increasing, though not significantly. The NRCMS units in east China, receiving no or low central government subsidies, were found to be more efficient than those in central and western regions with high-level central government subsidies – implying the importance of the local government’s financing ability and the rural residents’ ability to pay premiums.

Apart from medical cooperatives, China launched a term life and accident insurance micro scheme in mid-2008, sold by China Life and other insurance companies and supervised by the China Insurance Regulatory Commission (CIRC). At the end of 2008 it insured 2.39 million people (2009 estimate 6 million), with premiums of US\$ 6.1m (2009 estimate US\$ 14.5m).

Lessons learnt

- Pursuing a strategy for high renewal ratios is a prime component of good management of a micro health insurance scheme.
- Interact frequently with clients.
- Make sure clients and all intermediaries understand the product 100%, covering not just technicalities but also the emotional side.
- Point out the hidden values of insurance, such as quality of care and guidance.
- Look for ways to add tangible benefits.
- Project the total package of costs (administration/distribution, benefit, reinsurance and surplus) to develop a reasonable premium. Monitor and compare actual results and figures with what was included in the price.
- Member-financed, community-supported, less-subsidised health-care schemes are likely to be more efficient and better-managed than those heavily subsidised, as shown by an evaluation study in China.

Figure 10
Incidence by diagnosis group for new and renewing clients
(AKAM experience: Northern Pakistan – First half year 2009)



Source: Wrede, Peter. Presentation “The importance of renewal, and the benefit of customer loyalty”. 5th International Microinsurance Conference 2009

Parallel session 9

Linking microfinance with microinsurance: Operational lessons and experiences

The purpose of the session was to analyse the perspective of a commercial insurer (ICICI Prudential, India) and an MFI (ACSI, Ethiopia), on the importance of microinsurance and how it could be profitable for both sides.

Creating value

In some ways the insurance markets in India and Africa are similar. India has the second highest number of excluded households in the world, according to the UNDP. The country's market size for microinsurance, estimated as at 2007, is US\$ 2bn.

There is diversity in languages and dialects, ethnic groups, and religions. The microfinance sector is strong and dynamic. Microinsurance, too, has taken off, promoted by consumer education, innovation and the development of regulatory guidelines.

Microinsurance should be built on business fundamentals, with products that are self-sustainable, profitable and scalable, using technology to deliver efficient, doorstep, hassle-free service. These attributes are enhanced by a healthy portfolio, appropriate risk management and a reasonable cost of acquisition – elements that could be achieved by exploiting synergies between MFIs and commercial insurers as described in Table 6.

Table 6
Leveraging synergies

Profitability	Key factors: Challenges	Key factors: Mitigation
Cost of acquisition	Diverse client groups	Target clients: High regionalisation
	Lack of accessibility	Extensive reach
	Lack of financial literacy	Saving culture
	Business volume	Large client base (group)
	Servicing cost	Technological integration
	Lock of coordination and knowledge	Strongly committed staffs of local origin
Portfolio	Product design	Customer need and demand estimation
	Competitive pricing	Client-related data
	Limited product offerings	More coverage through bundling
	High lapsation rate	Cash collection mechanism
	Unstable income of target population	Credit available – income generation
	Claim settlement	Initial adjudication; less documentation
Risk management	Moral hazard	Long relationship; visit and monitoring
	Adverse selection	Set group of clients
	Fraud	Client's credit history
	Complex underwriting (individual)	Portfolio-based underwriting
	Less risk coverage	Comprehensive coverage-bundling
	Over-utilisation (health)	Control and tie up with providers

Source: Sameer Kwatra. Presentation "Value creation through bundling microinsurance with microfinance: Creating a long-term impact". 5th International Microinsurance Conference 2009



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45 — Sameer Kwatra, ICICI Prudential Life Insurance Co., India.

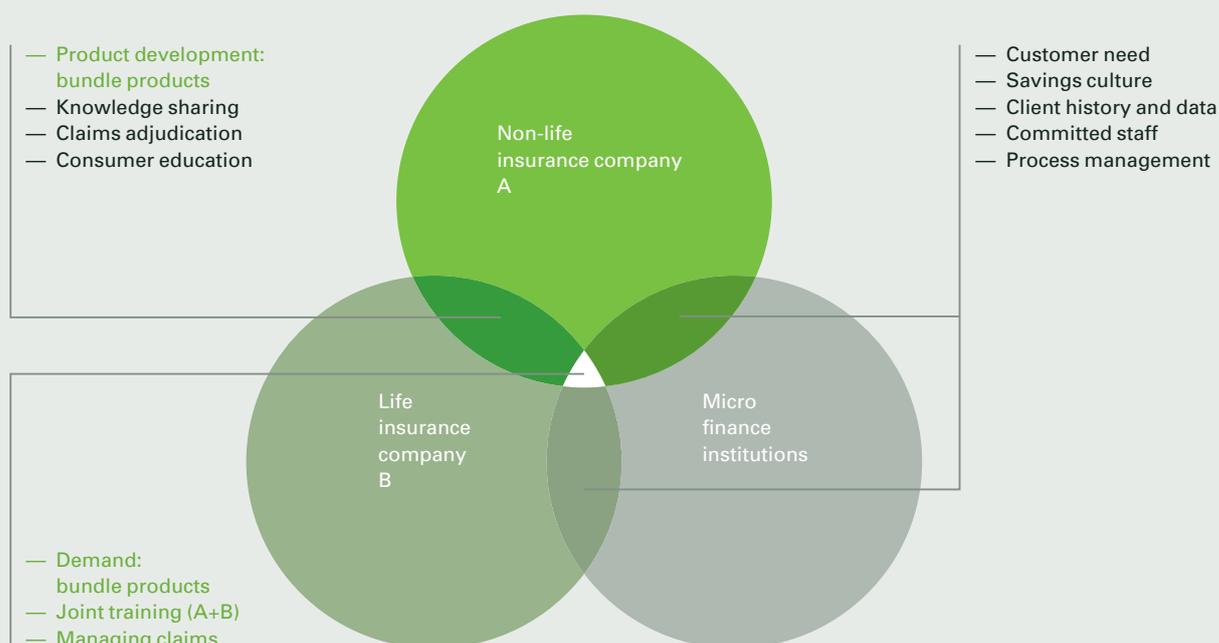
46 — Tewabe Aysheshim, Amhara Credit and Saving Institution (ACSI), Ethiopia.

Bundling of products is advantageous to both the consumer and the insurer. With an increase in customer focus, it is inevitable that bundling products will drive cost-efficiency and long-term sustainability in the emerging rural markets. Bundling need not be restricted to life/non-life insurance products alone; rather for maximum value it should be across all product lines as explained in Figure 11.

Easing the debt burden

In Ethiopia the rural financial landscape is essentially informal, and so are the financial institutions, with limited capacity, helping the poor to cope and reduce risky events. Linked effectively, microinsurance and micro-finance could enable real and sustainable alleviation of poverty. An MFI such as Amhara Credit and Saving Institution (ACSI) should understand that microinsurance is a financial product but with a different profile, requiring capacities and skills that are different and specific. Mainstream insurance companies and commercial banks are usually far from the MFI, as they work for the rich. They liaise with an MFI and decide to launch a credit life product but cannot go further.

Figure 11
How an MFI can work effectively with insurers to create microinsurance value



Source: Sameer Kwatra. Presentation "Value creation through bundling microinsurance with microfinance: Creating a long-term impact". 5th International Microinsurance Conference 2009

Parallel session 9

Linking microfinance with microinsurance: Operational lessons and experiences

An MFI must innovate to select the microinsurance model that meets its clients' real needs, and undertake education and marketing programmes. It is also important to deal with regulatory requirements. In Ethiopia, the government's policies encourage modern financial services for the poor; with a new proclamation recognising microinsurance as one of the microfinance products.

ACSI has 705,137 insured borrowers and some 400,000 voluntary savers. It has settled 3,582 claims on its credit life scheme. It is now considering delivering other products too. Among points made in its client feedback programme are

- reduce the debt burden risks at family and group level;
- request that the product cover the life of the client's spouse;
- help mitigate HIV/AIDS risk among family members as one person in each family is dying of the disease.

If increasing risk exposure and claims frequency prompt the partner insurance company to raise the premium, the MFI should negotiate to ensure that the scheme does not become prohibitively expensive and a disincentive for its clients. Insurers on their part have to be aware of the internal administrative costs of an MFI operating in the field.

A successful model of linking microfinance and microinsurance would involve simple products, simple methodology, and an efficient claims process, and before long have a direct and positive impact on the MIF retention and loyalty indicators.

Lessons learnt

- MFIs and insurance companies have to realise the importance of exploiting synergies between them to make the partnership successful.
- MFI business models involving insurance have to shift from the starting point of a purely credit life product to various innovative solutions to clients' needs.
- Microinsurance programmes act as a guarantor of the microfinance industry and are an appropriate tool for poverty alleviation and inclusion.
- For commercial insurers, capacity-building in microinsurance mechanisms is essential. Their challenges include winning the trust of low-income clients, social responsibility, focusing on the value chain of the product, following current regulations and staff training. The products developed should be technically sound for both idiosyncratic (specific to the household) risks and covariate (common) threats such as natural disasters.
- Involvement and empowerment of the intermediary and local supporters at the grassroots level is necessary to create transparency and increase client awareness.
- A largely unmet need in micro financial services is for insurance products with savings and investment components built in.

Agenda

Day 3 afternoon sessions 5 November 2009

Parallel sessions	Speakers	Facilitators
Session 10 Linking microfinance with microinsurance Weather and agricultural microinsurance	<u>Amadou Ndiouga Ndiaye</u> CNAAS, Senegal Developing agricultural microinsurance in Senegal: Challenges and possible solutions <u>Milana von Ruffin</u> University of California, Berkeley, USA Effect of weather insurance in developing countries' rural areas – Lessons for successful microinsurance models <u>Michiel Berende</u> Berende Consulting, the Netherlands How microfinance could improve index crop insurance	<u>Thomas Loster</u> Munich Re Foundation, Germany
Session 11 Academic track Production and contract design	<u>Martin Eling</u> Ulm University, Germany The performance of microinsurance programmes: A frontier efficiency analysis <u>John E. Murray</u> University of Toledo, USA Asymmetric information and countermeasures in early 20th century United States microinsurance <u>Kim B. Staking</u> Colorado State University, USA Insurance theory and challenges facing the development of microinsurance markets	<u>Richard Phillips</u> Georgia State University, USA
Session 12 Linking microfinance with microinsurance Round table on institutional innovations	<u>Richard Leftley</u> MicroEnsure, UK <u>Jose Luis Contreras</u> Aon Bolivia S.A., Bolivia <u>Alex Bernhardt</u> Guy Carpenter & Company, USA <u>Mathieu Dubreuil</u> PlaNet Guarantee, France	<u>Michael J. McCord</u> MicroInsurance Centre, USA
Plenary 5 Emerging issues and the way ahead	<u>Cheryl Scott</u> Bill & Melinda Gates Foundation, USA Recommendations to advance health financing <u>Doubell Chamberlain</u> Cenfri, South Africa New frontiers in distribution: What can we learn from successes and failures? <u>Thomas Loster</u> Munich Re Foundation, Germany The role of microinsurance facing climate change <u>Alexia Latortue</u> CGAP, France Putting client protection at the heart of microinsurance	<u>Rodolfo Wehrhahn</u> World Bank, USA

Parallel session 10

Linking microinsurance with microfinance: Weather and agricultural microinsurance

The session recaps experience of a newly established national agricultural insurance company in Senegal and the results of a study in India on how micro index insurance may be linked to microcredit.

The state of Senegal recognised agriculture as a catalyst for development because of its importance to the GDP and the large share of the population employed in the agricultural sector. In a new law passed in 2004, the state committed to promoting the development of agricultural insurance. Subsequently, in cooperation with several national private enterprises the “Compagnie Nationale d'Assurances Agricoles du Sénégal” (CNAAS) was established in 2008. It started business in 2009 with a capital of FCFA 1.5bn (US\$ 3.28m).

So far, the CNAAS has developed agricultural insurance products covering harvest and livestock, with several variants to overcome the problems of identification and resistance of livestock holders to count their cattle. Other challenges arise from varying prices of cattle making reimbursement time-consuming, regional variation of climatic conditions and types of crops cultivated. Currently, enrolment is relatively low despite awareness campaigns. Further efforts will be required to increase insurance take-up.

In the CNAAS business model, there is a direct link to the micro-finance industry in the form of close collaboration with existing networks in rural areas including microfinance institutions and farmers' organisations. The experience suggests that, as a side-effect of insurance, farmers' access to credit and banking is facilitated.

The impact of index microinsurance on the pattern of microcredit uptake was more formally investigated in a qualitative study conducted in five villages in Gujarat, India (see Box 12). Participants in this study were 71 mostly female smallholders who turned out to feel more secure with insurance than without it, but surprisingly did not take up more credit and also did not change the purpose or source of credit. In this case the demand for microinsurance and microcredit did not turn out to be so closely linked.

Box 12

The rationale for three hypotheses tested to show whether the demand for microinsurance and for micro-finance are linked.

Complementary goods

An increasing demand for microinsurance leads to an increasing demand for microcredit.

Reasons:

- Insurance reduces income variability and therefore leads to a higher ex ante investment.
- Insurance serves as de facto collateral in the absence of formal land rights and therefore credit should be more easily available.

Substitute goods

An increasing demand for microinsurance leads to a decreasing demand for microcredit.

Reasons:

- Purchase of insurance could lead to a lack of liquidity required to pay credit instalments on time.
- In an emergency, the timely payout of index insurance might obviate the demand for emergency credit.

Independent goods

An increasing demand for micro-insurance has no effect on the demand for microcredit.

Reasons:

- Financial illiteracy
- Uncertainty about the benefits of index insurance in particular in respect of the probability of basis risk given the novelty of the product on the supply side: lack of responsiveness by formal credit providers

Source: Von Ruffin, Milana. Presentation “The effect of weather insurance in developing countries' rural areas – Lessons for successful microinsurance models”. 5th International Microinsurance Conference 2009

One of the main reasons for this lack of a connection may be an insufficient understanding of insurance in general and index insurance in particular. This was revealed as none of the participants could state the trigger level or the role of rain gauges for the insurance programme. Lack of understanding is probably a major cause of the adverse effect on confidence in the scheme with its repeated redesign since its initiation in 2006. Educational efforts need to be directed to all family members throughout the year and not only before the harvest season to improve understanding of insurance.

Since regular insurance education meetings would be too expensive, other instruments of insurance education need to be found. One such instrument might be regular dissemination of insurance information via mobile phones. Here again microinsurance can learn from microfinance where the use of mobile phones has been prevalent for a long time to deposit, withdraw and transfer money, operate accounts and pay bills. Since 59% of the population in developing countries uses mobile phones, this opportunity has a special appeal for microinsurance.

In addition to insurance education, mobile phones could also be used for premium collection, enrolment, and transmission of information to insurers, as well as for collecting accurate geographical, demographical or agricultural data. Combined with other less precise sources like satellite data or data from rain gauges, mobile phones can thus contribute to solid databases and insurance product development.

Still, regulatory issues will need to be elaborated carefully and methods developed to validate information transmitted by mobile phones. Other challenges to overcome include illiteracy and multiplicity of languages even within countries. However, the enormous potential of mobile phones calls for further investigation on how to exploit this advanced and widespread technology to promote the development of microinsurance.

The Gujarat study of index insurance and microcredit produced a surprise finding: no support for the “complementary goods” thesis, little support for the “substitute goods” thesis, and support for the “independent goods” thesis.

Lessons learnt

- In an agricultural community, more education is needed for all family members and throughout the year on insurance as a concept as well as index insurance.
- Another target of such education should be financial services providers.
- Credit providers should regard index insurance as de facto collateral and ease rigid credit instalments for clients whose income is lumpy and seasonal.
- Ex ante feasibility assessment of index insurance should include non-weather-related institutional and political risks.
- The question remains as to whether the appropriate target market for index insurance is the micro level or meso/macro level.



47 — Left to right: Amadou Ndiouga Ndiaye, CNAAS, Senegal; Thomas Loster, Munich Re Foundation, Germany; Milana von Ruffin, University of California, Berkeley, USA; Michiel Berende, Berende Consulting, the Netherlands.

Parallel session 11

Academic track: Production and contract design

The session reviews three research papers. The first paper aims to use frontier efficiency analysis to measure the performance of microinsurance programmes. The second analyses how a microinsurance contract may be designed to balance benefit with moral hazard and adverse selection. The third deals with some of the critical elements of insurance theory that may help one understand the challenges facing microinsurance markets and how these markets can better serve the needs of their customers.

Frontier efficiency analysis provides measurement techniques that exactly address the limitations of the performance indicators currently used in the microinsurance industry. Moreover, these techniques encompass the important social function that microinsurers fulfil and provide powerful managerial implications. The paper illustrates the capabilities of frontier efficiency analysis using a data sample of 21 microinsurance programmes provided by the Microinsurance Network and recent innovations from efficiency literature, such as bootstrapping of efficiency scores. The empirical results indicate significant diversity and potential for improvement in the microinsurance industry. The findings also highlight differences between “classic” efficiency and “social” efficiency, which is determined by adding a social output indicator.

The second paper, examining asymmetric information and countermeasures in early 20th century United States microinsurance, uses the experience of health insurance funds which at that time covered a third of the industrial labour force in that country (asymmetric information involves a situation in which one party, say a policyholder, in a transaction has more or superior information compared to another, such as an insurer).

The research:

- tests for a relative measure of adverse selection studying the differences between claims in voluntary and compulsory insurance funds;
- tests for the moral hazard of sick pay, while holding selection constant;
- maintains that insured workers in health insurance funds had no choice in the premium for their contract and benefits structure, enabling this research to avoid the endogeneity problems of recent studies (caused by the use of variables produced or growing from within);
- tests the effectiveness of countermeasures, considering that insurers understood the importance of asymmetric information and included countermeasures in these contracts to confront moral hazard and adverse selection.

Insurers found evidence of adverse selection in voluntary memberships, and as a countermeasure implemented trial periods for admission, to discover what sort of risk a new employee would be. A trial period reduced claims significantly.

Insurers also found evidence of moral hazard in cases where the value of benefit payment was high. Insurers selected as a countermeasure the establishment of waiting periods, which also reduced claims.

The research concludes that evidence for the presence of adverse selection was stronger than that for moral hazard, but that both were present and that insurers’ countermeasures against each effectively reduced claims. Trial periods of a month or longer may mitigate adverse selection problems. And waiting periods of a few days to a week may mitigate moral hazard.

The study infers from these findings that the insurers’ management skills in counteracting asymmetric information were critical in helping them maintain their market share and discourage the introduction of government insurance.

The findings are of high value to microinsurance nowadays, demonstrating the advisability of using trial and waiting periods in products and contracts.

Microinsurance institutions and instruments have developed rapidly over the last decade, with policies covering tens of millions in the base of the economic pyramid for markets in Africa, Asia and Latin America. These markets, with proven potential, have generated relatively little interest in academic circles – a neglect being redressed in this conference.

Going into basics, the session’s third paper examines some of the critical elements of insurance theory that may help one understand the challenges facing microinsurance markets and how these markets can better serve the needs of their customers.

These elements include

- the basic utility theory as it relates to the demand for insurance and the willingness to pay at the base of the economic pyramid;
- the analysis of how dealing with multiple sources of risk will impact the propensity to consume insurance;
- the formation of pooling and separating equilibria when information regarding risks is limited;
- a unique twist on the underinvestment problem that arises at the base of the economic pyramid, that is where entrepreneurs will not undertake positive net-present-value projects: they may be hampered in converting from micro to small enterprises when there are significant levels of background risk;
- methodologies that can be used to reduce the high loading costs associated with microinsurance.

It is necessary to adapt standard insurance theory to special conditions and features of microinsurance – for instance, informality and the lack of an actuarial basis to determine fair prices. Critical to the design of effective programmes is a focus on the interaction among multiple risks – riskiness of both government- and community-based safety nets – and to diversify products. In mainstream markets, the risks of new ventures are underwritten by insurance; microinsurance could likewise counteract the underinvestment tendency of microentrepreneurs. And yet another need is to improve the solvency of microinsurers, in which not only reinsurance plays an important role but also policymakers, regulators, donors and development agencies.

Box 13

Insurer insolvency

- Microinsurance markets can be undermined by risk or delays in the repayment of losses. This is a critical challenge for policymakers, regulators, donors and development institutions.
- There is a potentially important role for international reinsurers in sending market-based price signals, assuring payments for covariate risk that cannot be handled within the local insurance industry.
- A critical need is to improve solvency of microinsurance, requiring a coordinated response from international reinsurers as well as those involved in its development.

Source: Staking, Kim. Presentation “Insurance theory and challenges facing the development of microinsurance markets”. 5th International Microinsurance Conference 2009

Lessons learnt

- Voluntary membership in microinsurance plans attracts higher risks.
- Probationary membership period before benefit eligibility reduces claims.
- More valuable benefits induce more claims.
- Traditional insurance theory has much to offer in understanding risk-transfer decisions at the base of the economic pyramid, but now academics as well as practitioners need to pay particular attention to the risk environment and institutional structures outside of formal markets.
- Better alternatives can be developed by careful consideration and effective coordination with existing risk-transfer programmes.
- Also needed is a look at
 - multiple risk sources (government- and community-based safety nets) and separating and pooling equilibria to prevent market failure;
 - ways of redressing underinvestment to help microentrepreneurs convert from micro to small enterprise.



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48 — Left to right: Kim B. Staking, Colorado State University, USA; John E. Murray, University of Toledo, USA; Richard Phillips, Georgia State University, USA.

49 — Martin Eling, Ulm University, Germany.

Parallel session 12

Linking microfinance with microinsurance: Round table on institutional innovations

The session re-evaluates the institutional option adopted by many practitioners, and the one used most by MFIs, to spread microinsurance: the partner-agent model. This model engages an insurer to underwrite the product while an MFI or NGO serves as an agent to market and deliver it. The model has appealed to donors, too, as they see it as a tool to alleviate poverty. However, experience has exposed a number of shortcomings in it, which innovations in the field, along with some needed changes in regulations, can overcome.

An overarching problem with the partner-agent model may be a conflict of interests between a profit-seeking commercial insurer and the people-oriented community organisation in the role of its agent. In practice, MFIs and NGOs have found that it limits their say in product design and that it is difficult to launch more complex products through it. And if the agreement does not clearly demarcate responsibilities, the arrangement could involve two layers of overhead. These shortcomings, once identified, can be remedied with some tweaking and a healthy dose of goodwill.

Help is also available from other organisations dedicated to serving the low-income sector in specific areas and functions where a partner-agent arrangement falls short.

MicroEnsure, UK, is an insurance intermediary dedicated to serving the poor – an aim for which it works with community organisations and negotiates with insurance companies on behalf of its clients. Guy Carpenter & Company, USA, is a full-service reinsurance intermediary. PlaNet Guarantee, France, is registered in the EU as an intermediary and focuses on microinsurance, with its services including setting up international pooling and reinsurance programmes. Aon Bolivia, an arm of the Chicago-based global provider of risk management, insurance and reinsurance brokerage, and human capital management services, has had microinsurance development through MFIs as one of its main objectives.

What they have in common is that each is or acts as a broker. Though the terms “agent” and “broker” are often used interchangeably – partly because both agents and brokers must pass the same licensing examinations to solicit or sell insurance – the two have distinct roles.

An agent has an “agency contract” with an insurer for providing its insurance. The agent is an independent contractor and not an employee of the company. The agent, unlike a broker, can issue cover, legally obliging the company to provide insurance.

A broker is a person or firm that can represent, and seek insurance quotations for, an insured or prospective client. Like an agent, a broker is not an employee of the insurance company. As representative of the insured, a broker will approach several insurers, obtaining quotations to adequately insure the client's exposures. Once the choice is made, the insurer, not the broker, issues the cover.

Unlike an agency, a brokerage is required to have an individual as its principal officer. A number of brokers active in the low-income sector believe a microinsurance brokerage should be exempted from this requirement. They also believe a broker can perform back-office functions for its client more cost-effectively than the insurer. However, a broker's access to services and role are often limited, in some jurisdictions by nationalisation issues and in others by regulation.

Brokers believe the IAIS guidelines, elaborated in its Issues Paper, make sense. However, they think that in some individual jurisdictions, regulatory constraints are still schizophrenic, responding to misplaced perceptions of realities in the low-income market. The regulatory framework needs to recognise that in the microinsurance market a broker often has to perform a wide range of functions – from issuing policies to managing claims. Freer access would enable a broker to serve client organisations more effectively in functions left unfulfilled by the partner-agent model.

Market maker

In one market the partner-agent model brought to the surface an inherent gap and flaw which took a truly innovative approach to offset – a solution that could be adapted for other markets.

The case in point involves the microinsurance scene and MFIs in Bolivia and how Aon Bolivia helped set the sector on a path of sustainability.



50 —Left to right: Mathieu Dubreuil, PlaNet Guarantee, France; Alex Bernhardt, Guy Carpenter & Company, USA; Michael J. McCord, MicroInsurance Centre, USA; Jose Luis Contreras, Aon Bolivia S.A., Bolivia; Richard Leftley, MicroEnsure, UK.

As Aon Bolivia saw it, the partner-agent model expected MFIs to gather information from their clients and create a product concept to match their members' real needs, and then identify an insurer to team up with them to offer the product. The model aligned responsibilities in the supply chain that presumed that MFIs would have or develop the product design, account administration and marketing competencies when in fact, at least in Bolivia, there was little evidence of it. Aon Bolivia thought the accepted model, while theoretically robust in its schematic alignment of microinsurance parties and functions from product development to delivery to back-office operations, lacked a key driver: a market maker. As a result, Aon Bolivia stepped in and, through disruptive innovation, redefined microinsurance by aligning cross-functional capabilities, experimenting, investing, and risking financial and reputational capital in the role of a market maker to bring sustainability to the opportunity.

Aon Bolivia's involvement underscored the importance, for intermediaries, of designing and conducting education activities with distribution channels and targeted populations.

Microinsurance intermediaries can provide added value in some specific areas – such as more complex schemes, and some distribution and management processes – while in some other aspects insurance companies themselves can manage the microinsurance programme directly. It would be wrong to assume that most microinsurance intermediaries are only intermediaries so they can receive revenue via commissions for their activities. They are not typical brokers, and they do a lot more than normal brokers to make the market. This is not acknowledged in regulation, as the only regulated position is that of an agent or broker (see Box 14).

Aon Bolivia believes that specific microinsurance institutions will need to be created if insurers and their partner agents do not go beyond scaled-down products they currently provide. These would be akin to the stand-alone microcredit organisations that had to be created when traditional banks did not meet the needs of microentrepreneurs.

Other institutions

The microinsurance market is not a tidy collection of the usual players. There is value to be added by other players and intermediaries.

In the microinsurance supply tree, MFIs are the low-hanging fruit. Looking ahead, as the global economic recovery trickles down, most MFIs are likely to concentrate on defending their own business rather than exploring non-core opportunities and risking their client bases.

There is a need to go higher up to other groups that may have stronger roots in the community and may know their members best. Micro-Ensure's work with the Anglican Church is one example. Institutions like that at the grassroots enjoy the confidence of the poor and, knowing the issues of concern to them deep down, are able to mobilise and deploy their support. As the saying goes, rich people in all countries are similar, but poor people in each country are very special and distinct. The challenge is to know how to transfer know-how from one country to serve the poor elsewhere.

There is also an increasing need to involve reinsurers. Existing catastrophe models are not geared to microinsurance, excluding, for example, a hut in Bangladesh or even Bangladesh itself.

Lessons learnt

- Operational shortcomings of the partner-agent model can be remedied by adjustments and clarity in the agreement between an insurer and an MFI or NGO.
- The institutional deficit of a “market maker” needs to be offset through an innovative intervention by a broker that can add value to the supply chain while deploying the proven actual core competencies of the insurer and its partner agent.
- An agent represents an insurer; a broker represents an insured or prospective client.
- There is need to engage grassroots institutions, more deeply rooted in communities than MFIs and NGOs, in microinsurance.
- Reinsurers need to modify catastrophe models to accommodate microinsurance.

Box 14

The role of the intermediary

An intermediary performs a number of important roles:

- Conducts research into client needs;
- Designs complex products such as health and weather indexes;
- Finds the right risk-carrier, whether it be the local insurer/reinsurer or cell captive;
- Provides client education, by training the loan officer, doing data entry, preparing management/underwriting reports and helping with claims management (especially in health where a third-party administrator (TPA) is necessary to provide cashless service);
- Contributes efficiency that justifies the function – as a product placed via an intermediary should cost the same as or less than that which an MFI can get directly;
- Has the ability to go beyond the MFI into NGOs, religious groups, phone companies, and multi-level marketing.

Plenary 5

Emerging issues and the way ahead

One tends to look at emerging issues and the way ahead through a long-term lens. Steps to adapt elements of insurance to the realities of the poor began in earnest less than a decade ago. There is far to go yet. A key problem is that the poor's needs are immediate, not long-term. With that in mind, the session zooms in on three issues.

The most urgent need is healthcare. New, more effective ways of taking insurance services to the poor are important too. Climate change is a burning issue for mainstream insurance; how does microinsurance deal with it? And, amid all else, an ongoing concern is keeping the number one priority of microinsurance front and centre: client protection.

Health financing

Healthcare financing is an enormous challenge; even sophisticated markets and governments of developed countries are struggling with it. There is increasing interest in how new micro health insurance approaches might provide key opportunities for countries and donors as they strive to reach their Millennium Development Goals. The complexities of such a strategy and the opportunities it presents will involve many stakeholders, but perhaps most of all the participants in this conference: microinsurance practitioners and experts.

Lately healthcare has emerged as a higher priority than group life and credit lines in microinsurance. Micro health insurance is one of the highest-demand products within the microinsurance space. For as many as 60% of the people around the world, healthcare is an out-of-pocket expense. Most of these are people who can least afford it.

Most initial offerings address reducing financial health shocks through catastrophic, in-patient coverage. There are many leading-edge offerings sponsored by a wide array of sponsors: community-based NGOs, insurance companies, MFIs, and mixed-sponsorship models between private and public sectors.

Health impact is best served by offering primary care coverage – but demand and affordability issues create significant barriers. Barriers to uptake also include insufficient scale, a limited value proposition for the poor, complex and poorly understood operating models and funding challenges.

As they make services available, microinsurers need to keep in mind the primacy of affordability. They need to ensure that there is clarity of the product and their customers receive and see value year on year. Unlike mainstream insurers, they should deal with the customer's price sensitivity first, and then work backwards toward administrative costs and the business plan.

Outpatient care should be a part of the package but not as a risk-bearing activity. Some institutions have innovated on medical savings accounts, which can be used to pay for care when needed.

51 — Cheryl Scott, Bill & Melinda Gates Foundation, USA.

52 — Doubell Chamberlain, Cenfri, South Africa.

53 — Left to right: Rodolfo Wehrhahn, World Bank, USA; Alexia Latortue, CGAP, France; Thomas Loster, Munich Re Foundation, Germany.



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A strategy towards scale is also needed. Links with a national programme, and partnerships among community-based groups, and between those groups and public bodies, hospitals and third-party administrators can help achieve scale, improve services and accessibility, and be mutually beneficial.

Partnerships, alliances and similar models will be crucial in the future as healthcare has both a public set of demands and a set of private market dynamics that these models can address.

The Bill & Melinda Gates Foundation recommends partnerships from its own experience. Global health is one of its three main programme areas. The Foundation works with a range of partners to achieve its goals as the scale of the problems it is trying to solve is large. The partners include the nonprofits, businesses, and governments to whom it makes grants. Other partners may co-fund work or help bring together multiple players working toward a common goal.

The Foundation is based on a simple premise: all lives have equal value. Today, billions of people never have the chance to live a healthy, productive life. The Foundation wants to help all people – no matter where they live – get that chance. It can be done because this is a unique moment in history: advances in science and learning are making it possible to solve complex problems as never before. If these advances are focused on helping people who have the most urgent needs and the fewest champions, then within this century billions of people will be healthier, get a better education and have the power to lift themselves out of hunger and poverty.

The Foundation announced the establishment of the annual US\$ 1m award in December 2000 to recognise groups that are dedicating themselves to promoting better health for all citizens of the world.

Since 2000, the annual Gates Award for Global Health has recognised an organisation that has made a major and lasting contribution to the field of global health. A recent winner was the African Medical and Research Foundation (AMREF), a Nairobi-based not-for-profit organisation and one of the continent's leading health research organisations. It has worked for nearly 50 years to provide essential health services and build health infrastructure in the impoverished communities of rural east Africa. AMREF is the oldest and largest aid organisation based in Africa and led by Africans. It was founded in 1957 as Flying Doctors, a service that airlifts surgeons to perform emergency procedures in towns and villages without access to hospitals.

Lessons learnt

- Microinsurance practitioners and experts have an opportunity now to respond to the increasing interest among countries and donors in new micro healthcare approaches.
- Healthcare has emerged as a higher priority than group life and credit lines in microinsurance, and is one of the highest-demand products.
- There are numerous offerings of in-patient coverage, but microinsurers can have a bigger impact through covers for primary care.
- Barriers to such an offering include insufficient scale, limited value for the poor, complex and poorly understood operating models, and affordability. Microinsurers should deal with the customer's price sensitivity first, and then work backwards toward administrative costs and the business plan.
- Models of partnerships – among community groups and with national programmes and public institutions – are crucial, as healthcare has both a public set of demands and a set of private market dynamics that these models can address.

Plenary 5
Emerging issues and
the way ahead

New frontiers in distribution

The Centre for Financial Regulation and Inclusion (Cenfri), a non-profit think tank based in Cape Town, has been studying trends in distribution channels since the first phase of innovative models entered the market some four years ago. Its research has involved a global scan of innovative “passive” distribution channels (models that do not include active sales, such as placing the product on a retailer shelf and distribution through utility companies) as well as experiments in South Africa and several other African countries. Initial findings have some lessons for regulators and industry. And they have at least one surprise for insurers in search of an advanced distribution method with technological bells and whistles to supplant the tried-and-tested agency model.

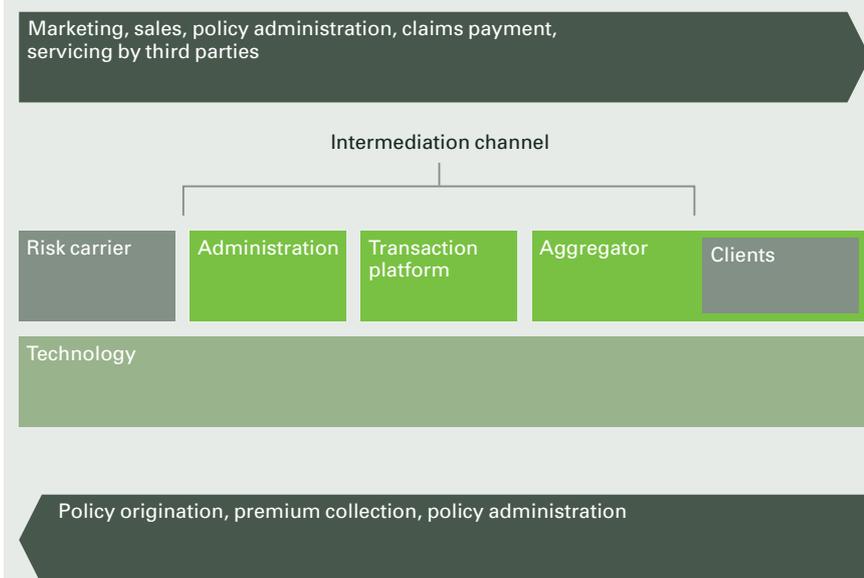
Microinsurance belongs to the distribution channel, says an insurer in Brazil. The channel itself rather than the insurer often leads distribution and even product innovation. The intermediation role – which may include an aggregator grouping the clients, a transaction platform and administration – drives various functions back and forth between the client and risk carrier, supported by technology (see Figure 12). In a drive to improve efficiency these functions may be outsourced across several separate legal entities. Regulation does not deal with this kind of distributed structure.

Retailer-based aggregators in the Cenfri study range from PEP, the largest single brand retailer in southern Africa with more than 1,400 stores in ten countries, and Protecta Arcángel pharmacies in Peru, to various neighbourhood stores used by Max Vijay in India, and Carrefour stores in Colombia.

Among transaction platforms studied are airtime network and mobile phones such as Cover2Go in South Africa, Safari Bima in Kenya and AKSIText in the Philippines, and bill payment networks like Wiredloop and Take-it-Easy in South Africa.

Figures gathered indicate that most innovative models have had limited success, technology helps efficiency but does not drive take-up, and an “active sales” strategy works better than a “passive sales” one. What also actually drives sales is what most insurers have known all along: simple products, tangible benefits and demand for service. Last but not least is the finding that the agency model may be re-emerging as an important distribution channel (see Box 15).

Figure 12
Intermediation revisited



Source: Chamberlain, Doubell. Presentation “New frontiers in distribution: What can we learn from successes and failures?”. 5th International Microinsurance Conference 2009

Box 15**Some notes from the frontier**

- Limited success: Increasing number of experiments with new distribution models but few successes yet.
- Passive sales strategies can work, but active sales works better.
- Technology is an important efficiency factor but not the driver of take-up (and not cheap – call centres, mobile payments, etc.).
- Payment networks: Emergence of non-bank cash friendly payment system networks is likely to be major driver of MI development.
- Products limited mostly to life and personal accident (with some experiments in housing insurance).
- Factors driving sales:
 - **Simple products**, tangible benefits and demand for service
 - **Benefits in life**: Food hampers/ vouchers, discounts on medical costs, visits to doctor, cash back and lottery
 - **Active sales**: Channels that can facilitate active sales achieve most take-up

Lessons learnt

In addition to key findings in Box 15, research results have some implications for regulation:

- **Regulation vs. reality**: Regulation does not comfortably facilitate partnerships with alternative distribution channels.
- **Insurer-centric**: Regulation risks being insurer-centric at the expense of these partnerships.
- **Avoidance**: Industry structure designed to avoid regulatory obstacles and costs (e.g. in South Africa and Brazil).
- **Brand risk for channel**: Strong incentive to deliver good-value products.
- **Awareness**: Active selling of good-value products may be the best awareness campaign; regulation should encourage this.

Client protection

As the microinsurance industry expands, new players enter the low-income market and regulation is far from perfect. It is important to take proactive measures to ensure that microinsurance providers treat their clients fairly and that clients are protected from harmful products.

The first step may well be to follow the lead of the microfinance sector, which has begun a global effort to unite its leaders around a common goal: institute client protection in all that MFIs do – to better serve clients and strengthen the microfinance industry.

The imperative to ensure poor clients are protected is perhaps even more urgent in microinsurance than in microfinance. There is great potential for unintentional harm as well as manipulation and abuse in the areas of pricing, benefits, and exclusions.

The principles of client protection in microfinance are

- avoidance of over-indebtedness;
- transparent pricing;
- appropriate collection practices;
- ethical staff behaviour;
- mechanisms for redress of grievances;
- privacy of client data.

The last three apply equally well to microinsurance, as does the second principle on pricing. The first could be re-stated for microinsurance as “avoidance of over-protection”, and the third one as “appropriate premium-collection and prompt and fair claims-handling practices”.

A question to consider would be whether there is room for these or similar principles in performance indicators developed by the Microinsurance Network for practitioners.

Plenary 5
Emerging issues and
the way ahead

Climate change

There are 800 to 1,000 natural disaster events registered around the world every year (see Figure 13). An increase of even 1° in average temperatures would in aggregate cause a sharp increase in weather events. Even worse, climate change leads to an increase in extreme events.

To have a microinsurance scheme in the areas that were hit would have been disastrous. From the perspective of insurance and reinsurance, a big issue is the lack of spread – over time and space – for microinsurers. Other key challenges for microinsurance facing climate change:

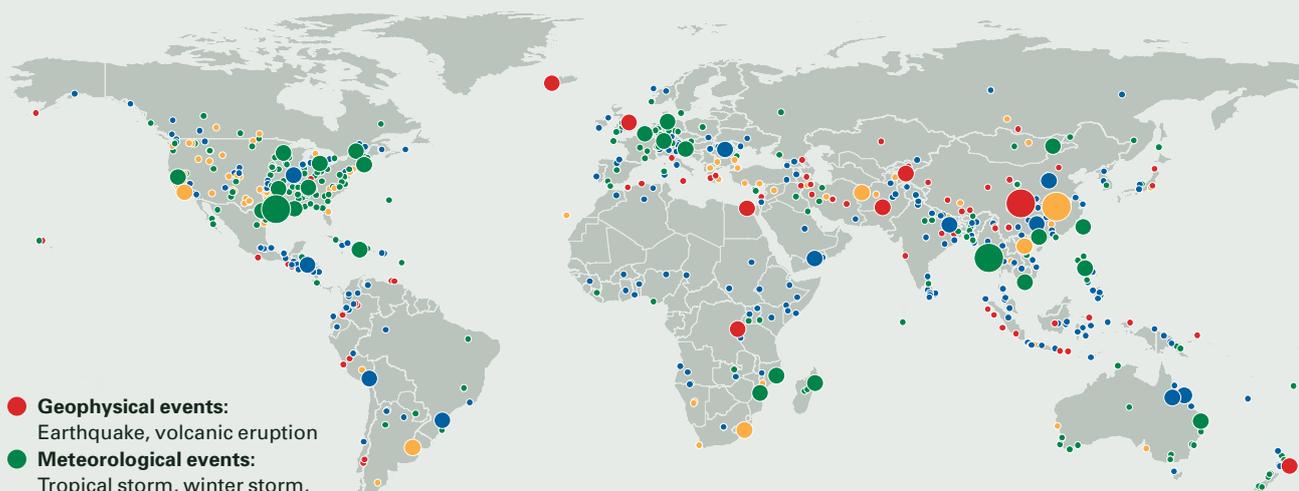
- Weather events often cover large areas and cause a huge number of claims at the same time, so-called loss accumulation.
- Claims handling can be extremely complex, causing frustration on both sides (micro-insureds and managers).
- Climate change perception: there will be more extremes, but there is no chance of covering frequent events.
- Climate change has not yet triggered index insurance projects. In the event that this happens, it will be interesting to see the effects.
- There is no cross-subsidisation in a world of pilot projects.

A point to note is that a micro-insured person or family of course might by chance benefit by being covered in a climate-change-related event under a separate cover (e.g. health).

In December 2008 a proposal made by the Munich Climate Insurance Initiative (MCII) to climate negotiators in Poznan, Poland, for the Bali Action Plan includes not only a climate insurance pool for major disasters but also risk-transfer mechanisms for index-based insurance at the medium level of risk and microinsurance (see Figure 14).

The MCII was initiated in Munich in April 2005 to serve the United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol suggestions that insurance solutions can play a role in adaptation to climate change. The MCII is formed by insurers, scientists, climate change and adaptation experts, NGOs, and policy researchers intent on finding solutions to the risks posed by climate change.

Figure 13
World map of natural catastrophes 2008



Great natural catastrophes 2008

Date	Region	Loss events	Fatalities	Overall losses (US\$ m)	Insured losses (US\$ m)
10.1–13.2	China	Winter damage	129	21,000	1,200
2.–5.5	Myanmar	Cyclone Nargis	85,000	4,000	
12.5	China	Earthquake	70,000	85,000	300
7–14.9	Caribbean.USA	Hurricane Ike	168	38,000	15,000

The MCII proposal is currently being discussed among country delegations, which take part in the so called Kyoto or Copenhagen process. Each of the two proposed pillars – insurance and prevention – would help address a different layer of risk: low-level risks by risk reduction through capacity-building and prevention measures, and risks at the medium and high levels by insurance measures that complement prevention. Despite efforts to prevent and reduce risk, countries will face rising medium- and high-level climate-related risks in a warmer climate.

MCII’s proposal therefore envisages a Climate Insurance Assistance Facility (AF, see Figure 14) to finance the estimated cost of the prevention pillar: US\$ 3bn per year. It would also support the middle-layer risk for macro and micro insurance systems for US\$ 2bn a year, and meet the US\$ 5bn-a-year cost of the Climate Insurance Pool, including reinsurance, for pre-defined portion of losses from large weather catastrophes.

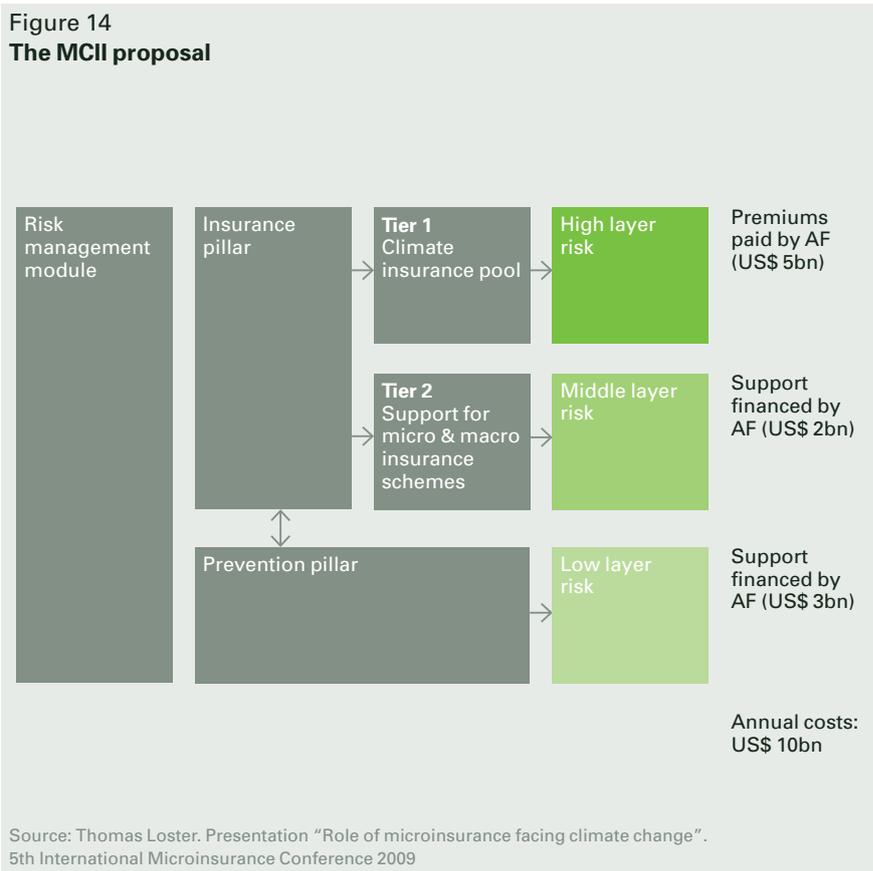
The MCII proposal meets the principles set out by the UNFCCC, provides assistance to the most vulnerable, and includes private-market participation.

The impact of climate change on microinsurance is a complex area with many challenges. However, now is the time to create and develop suitable products. As the Copenhagen agreement unfolds and financial support is made available to the microinsurance community, the products would be ready to offer.

Lessons learnt

- Unlike mainstream insurance, there is a lack of spread – over time and space – for microinsurance.
- Weather events such as huge storms or floods often cause a large number of claims at the same time in large areas, making claims handling time-consuming and extremely complex.
- Because of the nature of pilot projects (e.g. for index insurance), there is no cross-subsidisation.
- The MCII proposal to deal with climate insurance for the low-income markets is a part of the Copenhagen process and provides interesting features for micro- and meso-scale insurance.
- There is an opportunity to develop suitable climate change micro-insurance products.

Figure 14
The MCII proposal



Source: Thomas Loster. Presentation "Role of microinsurance facing climate change". 5th International Microinsurance Conference 2009

Field trip

CAURIE MF Thiès/2 November 2009

By Andrea Camargo,
University of Dauphine, France

In order to provide the conference delegates with first-hand experience of microinsurance in Senegal, PlaNet Guarantee organised a field trip to the microfinance organisation CAURIE MF (CAURIE) in the region of Thiès, about 70 km from Dakar. Nine people took part in the field trip.

CAURIE is a mutual microfinance institution supported by Caritas International. The key feature of the organisation is its so-called "Banque Villageoise" methodology. Borrowers are grouped into "Banques Villageoises" which are self-selected, structured and regulated groups of up to 75 women. The Banque Villageoise concept is based on a participative management and a joint guarantee being given.

In 2007 CAURIE partnered PlaNet Guarantee to implement a credit life insurance scheme (MADI: Microassurance Décès-Invalidité). AGF Sénégal is the risk-taker. PlaNet Guarantee offers a simple management system helping CAURIE to liaise with the risk-taker and the reinsurance companies.

The insurance covers repayment of the initial capital of the loan. The outstanding loan will be reimbursed to CAURIE. The microentrepreneur or the family receives the difference between the initial capital of the loan and the outstanding loan.

Box 16 CAURIE MF

Number of clients:
26,700 (2009),
near 350 Banque Villageoises

Number of credits provided:
215,000

Total credit amount:
US\$ 36m

Insured risks:
Credit life (including accident,
invalidity)

Premium:
1% of credit amount

The most important features
of CAURIE's microinsurance
products:

- No medical exams at the beginning.
- HIV/AIDS is covered.
- Waiting period of two months if death is caused by disease.
- For 12-month (max.) credits.
- Eligibility is from 18 to 64 years of age.
- Maximum amount of credit is US\$ 3,080.



54



55

54 — Field trip participants
in front of CAURIE's
Regional Office in Thiès.

55 — Participants in the field trip
in discussion with the borrowers.

This microinsurance product mainly helped to reduce the interest rates payable by borrowers by reducing the default rate. Lower interest rates increase the number of borrowers. From CAURIE's perspective, it provides additional services to their clients and therefore offers a new business opportunity.

A discussion between participants in the field trip and a group of borrowers revealed some interesting issues:

The borrowers

- seemed to fully understand the insurance product and were able to describe it in their own words;
- said they would also be interested in insuring other risks, such as fire and health;
- implicitly trusted both organisations involved in the microinsurance product because they trust CAURIE.

Representatives of CAURIE stated that they are extremely satisfied with PlaNet Guarantee's services. To reduce transaction costs, however, the organisation would like to create software to facilitate transmission of the files (between CAURIE and PlaNet Guarantee) as the current software is too slow.

Overall, the field trip participants concluded that CAURIE has substantially improved access to financial services in the region as well as having raised financial literacy and awareness.



Box 17
Global commission (GC)

The GC (1% of the loan) is distributed as follows:

- 51% of GC as a management commission (this goes straight to CAURIE as fixed revenue);
- 49% of GC as the premium (paid to the insurer),

AGF Sénégal receives: the premium, 5% of the premium as management fees, and 20% of the net income of the insurance contract as profit sharing.

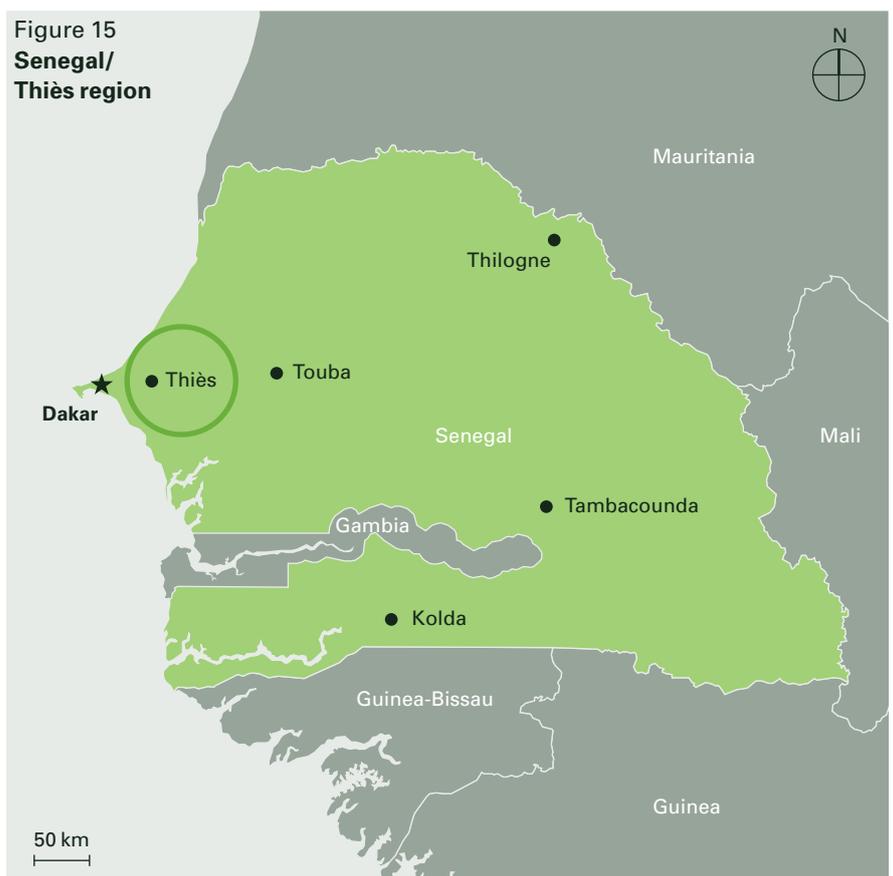
CAURIE receives: 7% of the premium as management fees, and 80% of the net income of the insurance contract as profit sharing.

PlaNet Guarantee receives 15% of the premium as management fees.

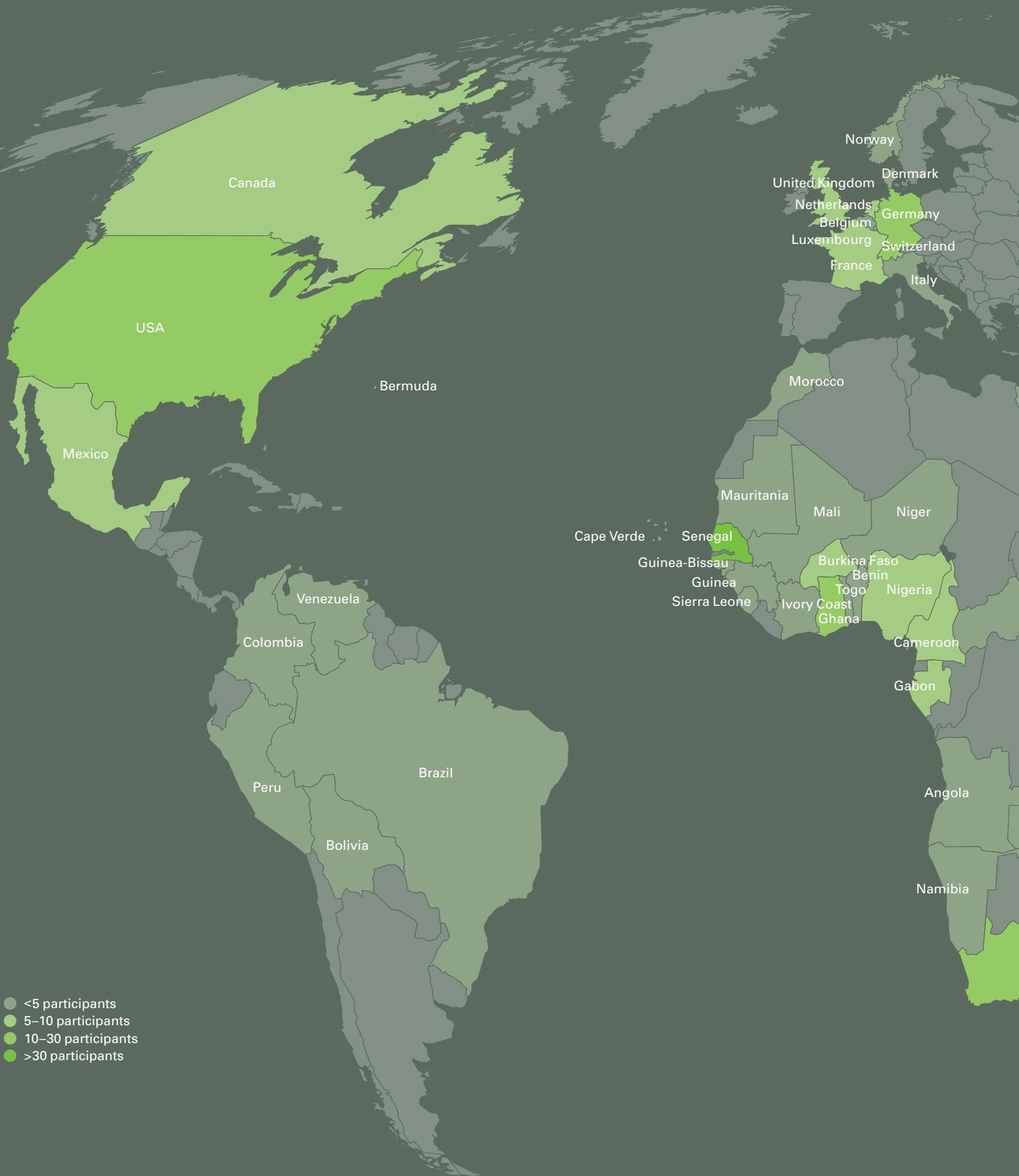
Box 18
The claim process

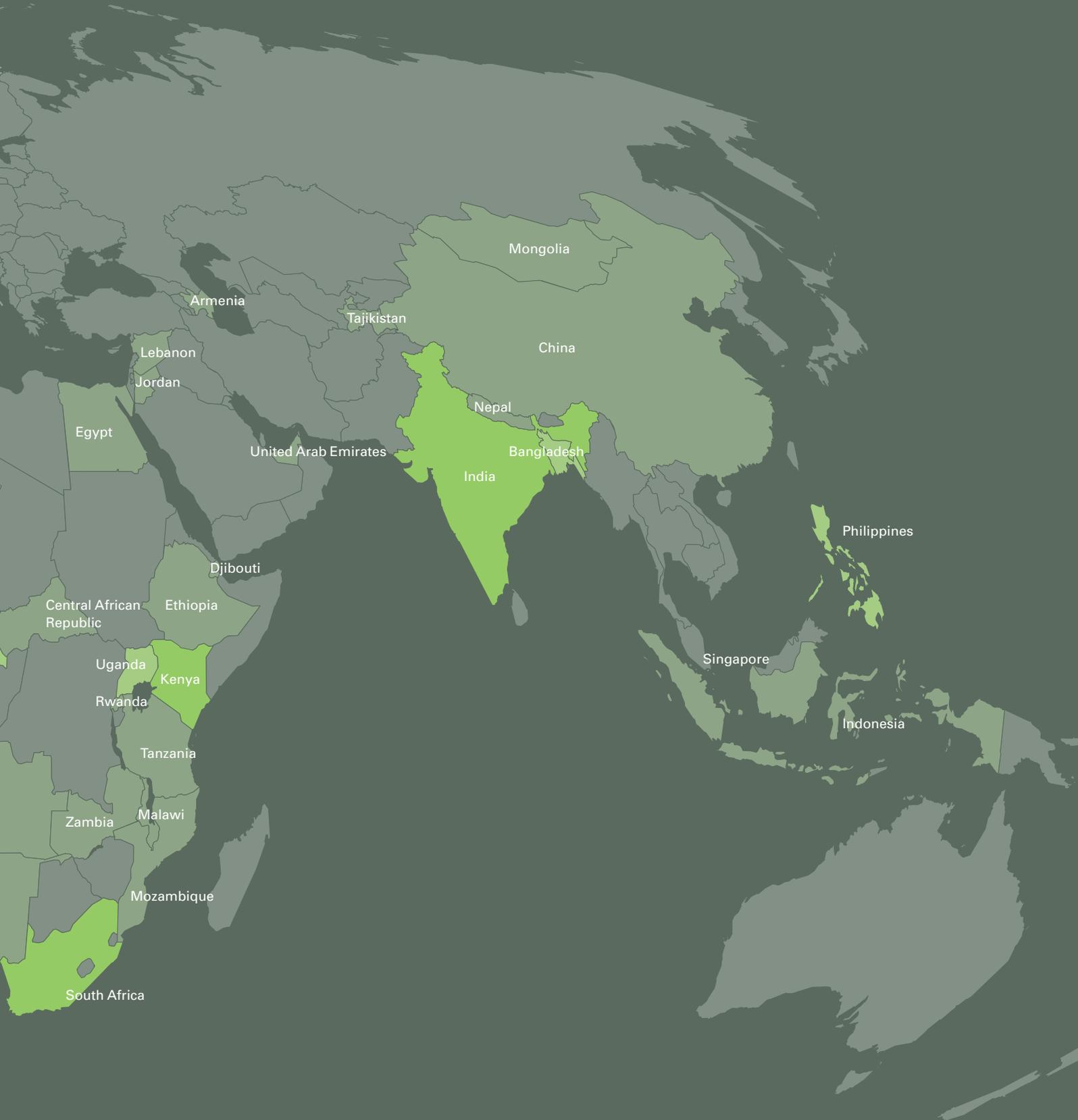
- 1 On a monthly basis CAURIE sends a file to PlaNet Guarantee, which contains
 - claims from the beneficiaries;
 - the death certificate of the insured party;
 - a copy of the credit contract;
 - proof of identity;
 - member certificates.
- 2 PlaNet Guarantee checks the file and certifies the amount payable within seven days.
- 3 CAURIE receives the exact amount from the insurance account and will pay this over to the client.

Figure 15
Senegal/Thiès region



Countries represented





Participating organisations

Angola ENSA - Seguros de Angola	Egypt Alexandria Business Association	Institute for Financial Management and Research IRDA Micro Insurance Academy Quadrant Consultants Track Four Infotec Private UpLift VimoSEWA	Morocco Ministère de l'Economie et des Finances Société Centrale de Réassurance	Direction Microfinance FANAF Fonds Impulsion Microfinance FSSA German Embassy Senegal Guard ILO ILO Senegal INAFI International INAFI International Foundation Institut Interafricain de Formation en Assurance et en Gestion des Entreprises (IFAGE) Institut Supérieur de Finance Jeunes leaders Africains pour l'accélération des OMD/Horizon 2015 Journal Agropasteur KfW Development Bank Le Quotidien Le Soleil MEC/UCAD Micro assurance PAMECAS MicroRate Africa Ministère de l'Economie et des Finances Ministère de la Santé Neurones NSIA Assurance Sénégal PAMAS/CTB PAMIF 2 PINORD PlaNet Guarantee PlaNet Rating PME-info Magazine Pro Assur Broker Programme d'Appui à la Microfinance SONAC Assurances Sonamvie Sonanassurances SA TransVie UCAD Université Dakar UNCDF	Switzerland Bamboo Finance Fair Trade Insurance Initiative FIDES IAIS ILO Novartis The Aga Khan Agency for Microfinance UNEP Finance Initiative Zurich Financial Services
Armenia AREGAK Universal Credit Organisation	Ethiopia Amhara Credit and Saving Institution ILO ILO Africa	Indonesian GTZ	Mozambique Caritas Mauritanie	Tajikistan GTZ	
Bangladesh INAFI Asia & Bangladesh RADOL University of Dhaka	France Acting for Life Centre International de Développement et de Recherche CGAP CGSI Consulting Consultant Grameen Crédit Agricole Microfinance Foundation MACIF PlaNet Guarantee Projet NANTES/GUINEE	Italy IFAD Paris Dauphine University	Namibia Namfisa	Tanzania Financial Sector Deepening Trust The First Microinsurance Agency	
Belgium Belgian Raiffeisen Foundation ITM - Antwerp Louvain Développement	Gabon CIMA Direction Nationale des Assurances	Ivory Coast CIMA ILO MCA Assurance / Groupe Atlantique Solidarité Finances	Nepal Beema Samiti, Insurance Board	Togo CICA-RE	
Benin Fonds National de la Microfinance ILO Ministère de l'Economie et des Finances	Germany BMZ Consultant D+C/E+Z Emergia Institute Free University of Berlin German Institute of Global and Area Studies GTZ KfW Ludwig-Maximilians-University Munich Munich Re Foundation Ulm University University of Cologne/Pro MHI Africa University Network University of Kiel University of Mannheim University of Regensburg University of Ulm	Jordan Jordan Fund for Women	Netherlands Berende Consulting Eureko FMO ICCO ILO Oxfam Novib	Uganda Microcare MicroEnsure Uganda Insurance Commission	
Bermuda Orion Reinsurance	Kenya Association of Kenya Insurers British-American Insurance CIC Insurance Insurance Regulatory Authority International Livestock Research Institute Intra Africa Assurance NHIF Pioneer Assurance Swedish Cooperative Centre	Lebanon Commercial Insurance	Nigeria Leadway Insurance Company National Cooperative Insurance Society National Insurance Commission UBA Metropolitan Life Insurance World Bank	United Arab Emirates Milliman	
Bolivia Aon	Luxembourg ADA Microinsurance Network	Malawi Reserve Bank of Malawi	Norway Interance Holding AS	United Kingdom ICMIF Insider Publishing Insurance Research & Publishing Ltd. LeapFrog Labs MicroEnsure Omidyar Network University of Manchester	
Brazil Bradesco Auto/Re Cia. De Seguros SINAF SEGUROS SUSEP	Mali CIMA Comité des Compagnies d'Assurances SOCODEVI SONAVIE	Mexico Asociación Mexicana de Uniones de Crédito del Sector Social Centro Inter de Servicios, S.A. de C.V. MAPFRE MicroFinance Network	Peru Instituto de Estudios Peruanos La Positiva Seguros y Reaseguros Pacifico Seguros	USA Accion International Aon Corporation Barnert Global Bill & Melinda Gates Foundation Carnegie Mellon University Colorado State University Financial Access Initiative Freedom from Hunger Georgia State University Guy Carpenter & Co. IBM Illinois State University Inter-American Development Bank International Food Policy Research Institute MicroInsurance Centre The World Bank UC Berkeley UNCDF University of Toledo Women's World Banking World Bank	
Burkina Faso Confédération des Institutions Financières Ministère de l'Economie et des Finances Ministère du Travail et de la Sécurité Sociale UAB VIE	Mauretania Caritas NASR	Mongolia Prime General Insurance XacBank	Philippines CARD-MRI GTZ-MIPSS Insurance Commission National Credit Council Pioneer Life TSPI Mutual Benefit Assoc.	Venezuela Seguros Carabobo	
Cameroon AIO CIMA FANAF IIA	Ghana Enterprise Life Assurance Company Limited Ghana Life Insurance Company GTZ Innovations for Poverty Action National Insurance Commission NHIA SIC Insurance Star Microinsurance Services		Rwanda Terrafina/Rabobank Foundation	Zambia Bankers Association of Zambia NICO Insurance Zambia Pensions and Insurance Authority	
Canada Denis Garand and Associates Développement International Desjardins ID&CS SOCODEVI University of Manitoba	Guinea PSS/GTZ		Senegal AAPM Allianz Sénégal Ambassade du Luxembourg AMSA Assurances Apanews AQUADEV ASPRODEB Association Africaine pour la Promotion de la Microfinance (AAPM) Association Sénégalaise pour le DWTP Nature BCEAO Cabinet Caelis CNAAS Coopération Technique Belge Coopérative des Ouvriers du Batiment Cop Magazine		
Cape Verde Instituto Nacional de Previdência Social	Guinea-Bissau Instituto Nacional de Previdência Social		Sierra Leone Luma Microfinance Trust		
Central African Republic CIMA	India CARE Foundation CIRM GTZ ICICI Prudential Life Insurance IFFCO-Tokio General Ins.		Singapore Munich Re		
China Peking University			South Africa Absa Life All Africa Actuarial Plus Consultants Aon Cenfri Financial Services Board FinMark Trust Hollard Insurance IFC Mutual & Federal Insurance Old Mutual Quindiem Consulting Sanlam University of Stellenbosch Bellville Campus WIPHOLD		
Colombia FASECOLDA - FUNDASEG					
Denmark University of Southern Denmark					
Djibouti Ministry of Finance					

Acronyms

ACSI Amhara Credit and Saving Institution (Ethiopia)	FANAF Fédération des Sociétés d'Assurances de Droit National Africaines	MACIF Mutuelle Assurance des Commerçants et Industriels de France	TPP Third-party payment	© 2010 Munich Re Foundation Königinstrasse 107 80802 München, Germany Letters: 80791 München, Germany Telephone +49 (0)89 38 91-88 88 Fax +49 (0)89 38 91-7 88 88 info@munichre-foundation.org www.munichre-foundation.org
ADA Appui au développement autonome (Luxembourg)	FAO Food and Agriculture Organization	MBA Mutual Benefit Association	UEMUA l'Union Economique et Monétaire Ouest Africain	Order number 302-06352
AIO African Insurance Organisation	FSD Financial Systems Development	MCI Munich Climate Insurance Initiative	UIC Uganda Insurance Commission	Contact Dirk Reinhard dreinhard@munichre-foundation.org
AKAM Aga Khan Agency for Microfinance	GIIF Global Index Insurance Facility	MFI Microfinance Institution	UNAIDS The Joint United Nations Programme on HIV/AIDS	Design Keller Maurer Design, Munich
AMREF African Medical and Research Foundation	GTZ German Association for Technical Cooperation	MIN Microinsurance Network	UNDP United Nations Development Programme	Lithography Gold, Munich
ASADEP Association Sénégalaise d'Appui au Développement de l'Entreprise Privée	HIV/AIDS Human immunodeficiency virus/Acquired immune deficiency syndrome	MRO Mauritania ouguiya	UNESCO United Nations Educational, Scientific and Cultural Organization	Printed by Druckerei Fritz Kriechbaumer Wettersteinstrasse 12 82024 Taufkirchen, Germany
BMZ Federal Ministry for Economic Cooperation and Development (Germany)	IAIS International Association of Insurance Supervisors	MSSB Mutuelle de Sécurité Sociale du Bénin	UNFCCC United Nations Framework Convention on Climate Change	Picture credits Ricci Shryock, Dakar, Senegal All pages excluding page 64; Coralie Zaccar, Jounieh, Lebanon Page 64
BoP Bottom of the Pyramid (Population)	IFC International Finance Corporation	MUSARS Mutuelle de santé régionale de Sikasso (Mali)	UNFPA United Nations Population Fund	
BRS Belgian Raiffeisen Foundation	ILO International Labour Organization	NGO Non-governmental organisation	UNHCR United Nations High Commissioner for Refugees	
CARD MRI Center for Agriculture and Rural Development Mutually Reinforcing Institutions (the Philippines)	IMF International Monetary Fund	NHIA National Health Insurance Authority (Ghana)	UTM Union Technique de la Mutualité Malienne	
Cenfri Centre for Financial Regulation and Inclusion (South Africa)	IRDA Insurance Regulatory and Development Authority (India)	NHIP National Health Insurance Program (the Philippines)	WAEMU West African Economic and Monetary Union	
CFA Communauté financière d'Afrique	JWG Joint Working Group	NIC National Insurance Commission (Ghana)	WFP The United Nations World Food Programme	
CGAP Consultative Group to Assist the Poor	KASAPI Kalusugan ay Sigurado at Abot Kaya sa PhilHealth Insurance (the Philippines)	NRCMS New Rural Cooperative Medical System (China)	WHO World Health Organization	
CIDC China Insurance Regulatory Commission	LDCs Least Developed Countries	SACCOS Savings and credit cooperative societies	WWB Women's World Banking	
CIF Confédération des Institutions Financières de l'Afrique de l'Ouest		SBS Superintendencia of Banks, Insurance and Private Administrators of Pensions (Peru)		Conference documents and presentations are available online at: www.microinsuranceconference2009.org
CIMA Conférence Interafricaine des Marchés d'Assurances		SCC Swedish Cooperative Centre		Links: Munich Re Foundation www.munichre-foundation.org Microinsurance Network www.microinsurancenetwork.org
CNAAS Compagnie Nationale d'Assurances Agricoles du Sénégal		SMEs Small and medium enterprises		
		SOCODEVI Société de coopération pour le développement international (Canada)		
		SUSEP Superintendencia de Seguros Privados (Brazil)		
		TLU Tropical Livestock Unit		
		TPA Third-party administrator		

