



Report

9th International Microinsurance Conference 2013
Insurance for emerging consumers

12–14 November 2013
Jakarta, Indonesia

Edited by
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Conference documents and presentations are available online at: www.microinsuranceconference.org/2013

Links:

Munich Re Foundation
www.munichre-foundation.org

Microinsurance Network
www.microinsurancenetwork.org

Acknowledgements

New figures on the status of microinsurance in Asia and Oceania were presented at the 9th International Microinsurance Conference which took place from 12–14 November 2013 in Jakarta. The good news is that over 170 million people today have some sort of microinsurance in Asia, and the growth rate is impressive. However, insurance for the poor remains practically unavailable in many countries. Billions of people still lack access to inclusive financial services – a challenge for development organisations, the insurance industry and also the regulatory authorities which, in many countries, are now willing to take the first steps towards creating an enabling environment for microinsurance.

The conference was therefore proud to launch the “1st Consultative Forum on microinsurance business models, risks and regulatory implications”. In this new format, the International Microinsurance Conference renews its commitment to provide a key platform for discussion between regulators and practitioners. We would therefore like to thank the International Association of Insurance Supervisors (IAIS), the Access to Insurance Initiative (a2ii), GIZ and the Microinsurance Network for their ongoing commitment to drive the discussion in the field of regulation.

The Financial Services Authority of Indonesia (OJK) and the Insurance Council of Indonesia (DAI) provided outstanding support and guidance to make this conference an extremely well-attended event and a true success. We would especially like to thank Commissioner of Insurance Firdaus Djaelani, Muliaman D. Hadad, Chairman of OJK Board of Commissioners, and DAI Chairman Kornelius Simanjuntak. It was a great pleasure to experience the introductory workshop on the day before the conference began, which was attended by an additional 250 Indonesian experts, and most particularly also the launch of the “Indonesian Grand Design for Microinsurance”. The conference dinner was a truly special event and the participants also very much appreciated the organisation of another interesting field trip. We would also like to express our appreciation to Mr. Indra Situmeang who acted as the key contact between the Conference Steering Committee and the local Indonesian organising committee, and worked night and day to make the event a success. Without his outstanding support, the conference would not have been possible.

A conference of such magnitude needs a lot of people working behind the scenes. The local organising committee and the Munich Re Foundation conference team – Analisa Gradim Pedro, Paula Jiménez, Petra Hinteramskogler, Christian Barthelt, Torsten Kraus – did an amazing job in organising another exceptional event. A special “thank you” goes to Thomas Loster, Chairman of the Munich Re Foundation, to the Executive Director of the Microinsurance Network, Véronique Faber, and to the entire team of the secretariat of the Microinsurance Network for its great support.



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1 — Craig Churchill, Chairman, Microinsurance Network, ILO/Microinsurance Innovation Facility, Switzerland.

2 — Dirk Reinhard, Munich Re Foundation, Germany.

Acknowledgements

We would like to especially mention this year's great team of rapporteurs – Laura Budzyna, Shoshana Grossman-Crist, Heidi McGowan, Marlene Mueller and Saut Sagala – led by Zahid Qureshi, who volunteered to take on the difficult task of gathering and documenting the key messages and lessons from the various sessions of the 2013 conference.

Our appreciation also goes to the over 400 participants from nearly 60 countries, and especially to the 80 speakers, for sharing their knowledge and experience and making the discussions lively and thought-provoking. On behalf of the organisers, we would like to thank the 18 members of the conference steering committee. This event would not have been possible without their work in identifying suitable speakers and presentations from the almost 150 applications submitted during the preparations for this conference.

The 2014 International Microinsurance Conference will take place in Mexico. It will be the 10th event, a clear sign of the continued importance of insurance for the poor as a safety net against diverse risks and as a valuable contribution to sustainable development. Although we have seen substantial growth, many challenges still remain, including the extension of basic financial services to the billions of low-income people who still lack access. Together with the Microinsurance Network and the partners who have supported the conference, Munich Re Foundation will continue to play its role in providing a discussion platform to help achieve the goal of inclusive financial services for all.

Dirk Reinhard, Vice-Chairman Munich Re Foundation, Germany, Chairman of the Conference Steering Committee

Craig Churchill, Chairman, Microinsurance Network, and Team Leader of the ILO/Microinsurance Innovation Facility

Munich, Geneva, April 2014

This report is the summary of the 9th International Microinsurance Conference that took place in Jakarta, Indonesia on 12–14 November 2013. The conference was hosted by Munich Re Foundation and the Microinsurance Network with the support of the Indonesian Financial Services Authority (OJK), the Indonesian Insurance Council (DAI), the Deutsche Gesellschaft für International Zusammenarbeit (GIZ) on behalf of the German Federal Ministry for Economic Development and Cooperation (BMZ), the Georgia State University Center for the Economic Analysis of Risk (CEAR), the World Bank/IFC and the PharmAccess Foundation. The presentations were made in different styles, and individual summaries in this collection of reports reflect that difference. Readers, authors or organisers may not share all opinions expressed or agree with the recommendations given – which, however, reflect the rich diversity of the discussions.



3 — Over 400 participants from around 60 countries attended the 9th International Microinsurance Conference.

Agenda

Day 1 morning sessions 12 November 2013

1st Consultative Forum on business models, distribution and their regulatory implications

Firdaus Djaelani
Commissioner of Insurance,
OJK, Indonesia

Peter van den Broeke
Member of the Secretariat,
IAIS, Switzerland

Stefanie Zinsmeyer
Project Manager, Access to
Insurance Initiative, Germany

Arman Oza
CEO, VimoSEWA, India

Ferdinand Florendo
Deputy Insurance Commissioner,
Insurance Commission,
The Philippines

Luc Noubissi
Insurance Supervisor,
Inter-African Conference on
Insurance Markets (CIMA),
Gabon

Al-Malik Khoja
Microinsurance Manager,
Jubilee Life Insurance, Pakistan

Israel Kamuzora
Commissioner of Insurance,
Tanzania

Tomas Mayoralgo
Programme Director,
Microinsurance
Mapfre, the Philippines

Richard Leftley
CEO,
MicroEnsure, UK

Jeremy Leach
Director, Bankable Frontier
Associates – Cenfri,
South Africa

Véronique Faber
Executive Director,
Microinsurance Network,
Luxembourg

Facilitator

Arup Chatterjee
Senior Financial Sector
Specialist,
Asian Development Bank,
The Philippines

Pre-conference seminar – Scientific evaluation methodology

Behavioural tools for evaluating
insurance products

Glenn Harrison
Chair, Risk Management and
Insurance, Georgia State
University, USA

Experimental methods applied
to insurance demand

Todd Swarthout
Assistant Research Professor,
Georgia State University, USA

Practical lessons for field
evaluations of insurance
products

1st Consultative Forum on business models, distribution and their regulatory implications

The Consultative Forum was organised by the International Association of Insurance Supervisors (IAIS) and the Microinsurance Network in collaboration with the Access to Insurance Initiative (A2ii) with the support of Munich Re Foundation and BMZ/GIZ.

In his welcome address, Commissioner Firdaus Djaelani from the Indonesian supervisory authority, OJK, emphasised the priority that governments, such as the Indonesian government, are giving to the provision of broad-based access to insurance. Peter van den Broeke, representing the Secretariat of the IAIS and a member of the Governing Council of the Access to Insurance Initiative, reiterated the strong focus of the IAIS on instilling regulatory practices and on supporting its member jurisdictions in the application of these practices. He underlined the importance of proportionate approaches that serve the low-income segment most effectively. He sees the Consultative Forum as an important platform for the exchange of information between the IAIS and the Microinsurance Network.

Business models with a focus on distribution

Setting the frame for the discussions, Stefanie Zinsmeyer of the Access to Insurance Initiative presented emerging findings from a synthesis study on microinsurance business models from 25 jurisdictions around the globe focusing on the related risks and regulatory implications for supervisors¹. Eight distinct microinsurance business models can be defined across all the countries: individual sales; proxy sales force; compulsory sales; group decision; local self-help; auto-enrolment; passive sales and service-based sales.

The type of intermediation drives the classification of these business models. The distribution of microinsurance plays a crucial role in achieving the scale required to make low-premium business viable.

The evolving business models are associated with specific consumer protection risks to which the supervisors must respond. Each of these risks results from a number of risk drivers. The participation of multiple and new types of parties in the microinsurance value chain (for example retail, utility, mobile network operators, cooperative or microfinance institutions) also leads to a number of regulatory implications. Many of these parties are not traditionally supervised by the insurance supervisor. The representatives of these parties that sell insurance may not have the traditional set of skills or the competence of insurance brokers and agents. The incentives of the distribution channel and sales people will also not necessarily be aligned with those of the insurer. Moreover, the insurer's bargaining power is often reduced vis-à-vis new intermediaries in the distribution chain who control access to the client. This, along with the participation of multiple parties, can increase distribution costs. It can also increase the risk for the reputation of the insurers.

Lastly, the nature of the target market raises consumer protection concerns:

- The insurer is less visible to the client;
- Passive sales techniques or sales conducted by persons with reduced skills or misaligned incentives will exacerbate the risk of misselling where clients have limited knowledge and skills;
- Clients will be less aware of the fact that they are covered and of how to submit a claim in the case of auto enrolment;
- Where clients have fewer resources for accessing consumer recourse mechanisms, independent or third party recourse mechanisms are less-effective.



4 — Firdaus Djaelani, Commissioner of Insurance, OJK, Indonesia.

5 — Peter van der Broeke, IAIS, Switzerland.



¹ The terms "Supervisors" and "Regulators" are used interchangeably. They always refer to the authority in charge of supervising the insurance industry.

Box 1

Background and objective of the Consultative Forum

The IAIS and the Microinsurance Network have a long tradition in bringing regulators, industry and other MIN members, such as development partners and academia together to advance inclusion policies and regulation. Since 2006, they have been joining hands in drafting issue papers and guidance on emerging topics and in discussing so-called RSP (Regulation, Supervision and Policy) approaches that are significant for inclusive insurance markets.

The Consultative Forum intends to continue the dialogue panel of the former IAIS-MIN Joint Working Group. The IAIS has integrated the drafting panel into its Financial Inclusion Sub-Committee.

Public-private dialogues have proven to be an effective instrument for inspiring regulatory action that pursues a proportionate regulatory approach. Proportionate regulation should foster innovation and abolish barriers to market development. International dialogues are important to listen to regulators, industry and other experts who may stumble over implementation.

It is intended to develop the Consultative Forum into a permanent dialogue format driven jointly by the IAIS and the MIN with the support of the Access to Insurance Initiative and Munich Re Foundation.

Regulatory challenges

The market trends described above require supervisors to:

- Coordinate with other supervisory authorities responsible for the regulation of services such as telecommunications;
- Adapt intermediary entry and ongoing requirements in line with new market realities;
- Find the balance between allowing a broader set of intermediaries and ensuring consumer protection and product value.

Various regulatory responses to each identified risk can be observed at international level. In many cases, there may be more than one appropriate response to a given risk and the response chosen will depend largely on the overarching regulatory approach and other external factors.

Panel facilitator Arup Chatterjee of the Asian Development Bank said that “efficient distribution alone cannot sustain a market; effective post-sales services need to be in place”.

Snap-shots of the discussion

The two panels and the plenary discussions between regulators from Africa, Asia, industry representatives and experts from all regions focused on a wide array of issues. Here are a few snap-shots:

Scalability is one of the key strengths of technology-based distribution.

Distribution via mobile phones, for example, provides a promising opportunity of demonstrating value and penetrating the markets of potential clients who would otherwise not have actively intended to buy insurance. In this case, initial products need to be very easy to understand and claims settlement must be efficient to ensure that the first-time client has a positive experience. After establishing basic insurance literacy by testing the product, a provider might expect clients to be interested in adding products to their personal insurance portfolio.

In difficult geographical settings,

such as in Indonesia with its over 17,000 islands, traditional channels do not allow scale and broadly based outreach. Cooperatives, merchandise shops, post-offices or pawn-shops are being considered for this purpose.

Some providers are trying to **combine traditional channels with technology**. One of them, Bradesco of Brazil, says: “**Technology facilitates delivery through new distribution channels, but must be carefully combined with traditional distribution elements.**”

Brazil has a legal requirement that a broker must be involved in insurance sales, thus necessitating ways of reconciling the use of old and new channels.

Bradesco recognised that direct selling points in a low-income community, enabled by technology without face-to-face interaction with a broker, would be rejected by the community. Traditional brokers help a conservative community to trust a new product. They also facilitate back-end processes. Bradesco has had to find the right balance between the use of a call centre and of brokers for providing information to clients and responding to their questions or concerns. While the call centre allows centralisation, brokers provide a personal touch and build trust.

Technology-based intermediation

has limits. It can work with personal accident policies, but some insurance products such as life insurance require face-to-face interaction. Its role should not be over-estimated in mobile phone-based distribution.

1st Consultative Forum on business models, distribution and their regulatory implications

Effective servicing practices are required. Mobile network operators allow insurers to achieve scale. When scale and technology replace client relationships, a post-sales risk arises and needs to be managed.

Client enrolment requires a sound technology base to cope with the massive numbers and the paperless approach. When a high number of branches are involved, data integrity will require the distribution partner to have good systems and adequate skills.

A change in the power balance not only offers advantages but also disadvantages. An increasing dominance in non-insurance parties providing insurance to their client base and acting as aggregator can be observed. The shift of power from the insurer to the aggregator increases risk. However, this effect can also counterbalance the traditionally high power of underwriters.

Mutuals can play an important role, either as underwriters or as distributors. They have a huge advantage due to their naturally close affiliation with the low-income segment. However, their scalability might be an issue, as observed in India.

There is an increasing variety of non-financial distribution channels. They take such forms as intermediation through retail chains and shops, trade-unions, mobile network providers, post offices, non-banking agents or funeral service providers.

Innovative distribution needs effective post-sales services: distribution without adequate models for post-sales services will not advance inclusive insurance.

Supervisory know-how is crucial, as supervisors need to understand the process of a new intermediation channel in detail so as to be able to recognise the associated risks.

Policy approval sometimes took a long time when supervisors first began to work with microinsurance. However, microinsurance product approvals today are being processed more rapidly.

The value of a policy can be seen, for example, by looking at the commission levels and the speed of payment. Supervisors have an obligation to check these indicators.

Supervisors should also not act in silos. Branching out often requires different regulators to consider joint supervision at the intersection of various supervisors such as telecommunication and insurance. In the case of Tanzania, the telecommunications regulator requires that the insurers are certified.

New types of partnerships need to be guided by clear up-front rules.

These include a clear exit policy which can prevent failures and a potential devastating situation for the community served in terms of lack of service and eroded trust. The partnership agreements with aggregators provide a basis for supervisors to consider their viability and consumer protection concerns.

Making the demand-side more aware and knowledgeable about their duties and rights will allow effective distribution. Consumer education that is independent of sales is a task both for the authorities and the insurance industry alike.



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6 — Left to right:

Tomas Mayoralgo, MAPFRE, Philippines; Arman Oza, VimoSEWA, India; Richard Leftley, MicroEnsure, UK; Israel Kamuzora, Insurance Regulatory Authority, Tanzania.

7 — Left to right:

Facilitator Arup Chatterjee, Asian Development Bank, Philippines, in discussion with William Martirez, MicroEnsure, Philippines and Stefanie Zinsmeyer, A2ii, Germany.

8 — Left to right:

Jeremy Leach, Bankable Frontier Associates, South Africa; Al-Malik Khoja, Jubilee Life Insurance, Pakistan; Ferdinand Florendo, Insurance Commission, Philippines; Luc Noubissi, CIMA, Gabon.

Trust can only develop on the basis of good experience. The distribution partner is frequently the trusted interface for a low-income consumer. The brand of the distribution partner is often more important and trusted. Paying claims quickly is an important element that instils trust.

Demand is generally low, as populations have very little insurance awareness. Consumers need to be educated about the potential of insurance and about their rights and duties.

Crowding out by subsidised government schemes is an issue in various countries. The opportunity of scaling up commercial insurance can be hindered by free premiums and social programmes that compete unfairly.

With more players increasingly becoming part of the microinsurance value chain, the question arises as to how the intersection between them can be regulated efficiently. In the absence of binding regulations for an aggregator partnership, a contract between all parties involved could be a tool for management of the partnership and the potential risks involved. This contract would serve as a guideline for obligations, duties and functions, and would outline what is expected from each party, in particular from the claims management process.

A clear exit strategy is imperative in partnership agreements. When partnering with a third-party distributor, it is important to manage expectations from both parties and to clearly define roles and responsibilities to avoid misaligned interests. In the event of the parties deciding to end the partnership, it is crucial to proceed in a transparent manner and to inform the clients. After all, clients' interests need to be protected to avoid damage to the entire microinsurance industry.

Veronique Faber, Executive Director of the Microinsurance Network, closed the Forum by calling for more transparency to promote client confidence and trust and motivate them in purchasing insurance.

Lessons learnt

- The drive for innovation is often related to a disintegration of the microinsurance value chain. This brings more players with different motivations into the field. They are sometimes also under different regulatory regimes, or not regulated at all.
- Supervisors need to build their capacities for understanding the various business models and managing the intersection between the regulatory ambit and players in the value chain. They also need to strike the right balance between too much and too little regulation.
- Distribution partners are increasingly dominating the business in terms of driving performance and representing brand value to the consumer.
- When entering into partnerships for the distribution of microinsurance products, the rules of engagement need to be clearly defined. Innovative distribution needs to consider effective servicing from the outset to minimise the post-sales risk and instil trust.
- A clear exit strategy needs to be in place. When a product or partnership is discontinued, it is important to keep clients informed and to foster trust at all times to avoid market damage for future products.

Pre-Conference seminar

Scientific evaluation methodology

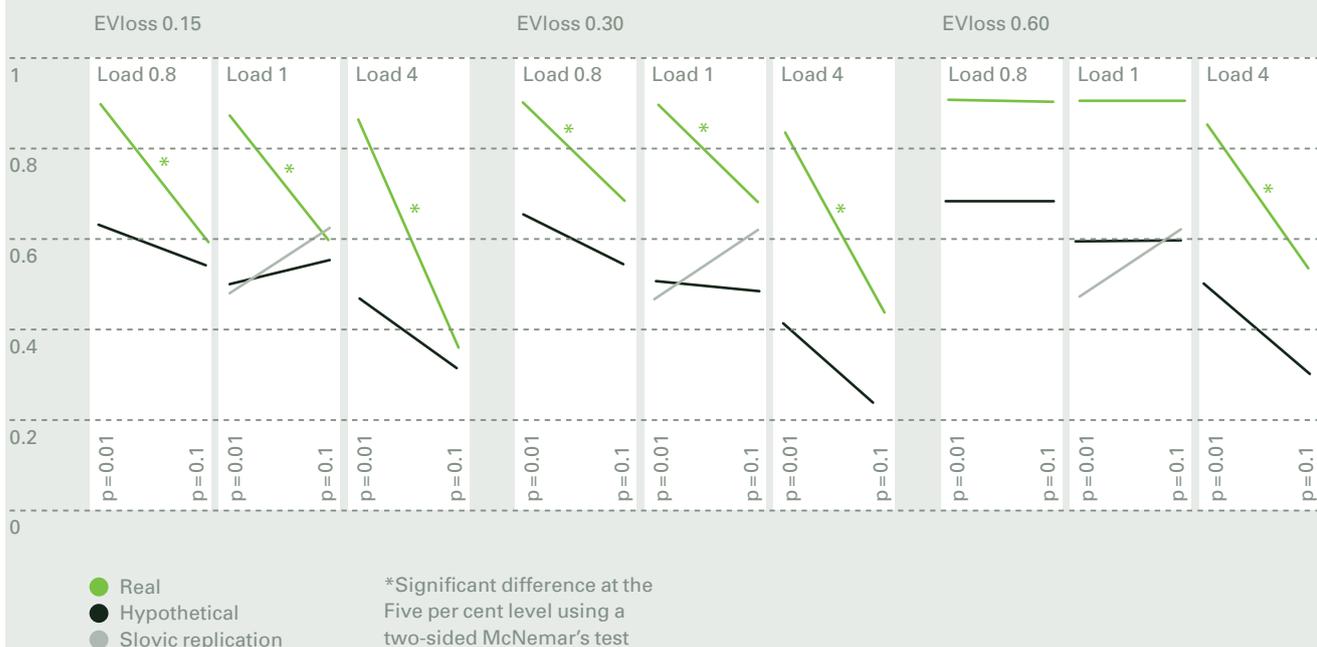
The Center for the Economic Analysis of Risk (CEAR) at Georgia State University, USA, studies the topic of risk through diverse lenses of disciplines ranging from economics and finance to psychology. In particular, CEAR seeks to understand how individuals respond to both financial and non-financial risks, focusing on less developed countries and on poor communities within rich countries.

To answer these complex questions, CEAR employs experimental techniques drawn from the field of behavioural economics. In this session, CEAR outlined its methodology and demonstrated an actual experiment with the participants. By deepening understanding of individuals' decision-making processes about risk, these experiments can help answer critical questions about the demand and design of microinsurance in low-income communities.

Evaluators of microinsurance programmes tend to focus on **take-up and profits** in order to maximise sales. Because it is easy to measure, product take-up is often used as a proxy for determining whether a product is "good" or not. This can be misleading; for instance, high take-up rates could be due to misinformation or a soon-to-disappear subsidy.

Measuring **welfare** is decidedly more challenging, and thus much less common. Welfare evaluations can show the **distributional effects** of an intervention; in other words, they can not just assess average impact but also how impact was distributed among "winners" and "losers". These can be used to design better insurance policies. They can also assess the **cost-benefit** of allocating resources toward this intervention against other objectives.

Figure 1
Results of compensated vs. uncompensated experiments



Source: Swarthout, J. Todd. Presentation "An Introduction to Experimental Economics and Insurance Experiments." 9th International Microinsurance Conference 2013.

Both types of evaluation rely on a crucial insight: **how do people make decisions about risk management and insurance?** Three major factors influence this thinking process:

Risk preferences describe an individual's willingness to take risk. This may be influenced by an aversion to the variability of outcomes (diminishing marginal utility), the belief that bad outcomes are more likely than they are in reality (probability pessimism), and the willingness to take irrational measures to avoid a small loss (loss aversion).

Time preferences refer to an individual's or a household's level of impatience: is a person willing to pay a premium now for a benefit that will come later? Generally, impatience is high in poor communities, as people value the present value of premium highly in comparison to the discounted future benefits. If time preferences are negatively affecting take-up, spreading out premium payments can help mitigate this factor.

Subjective beliefs around risk, uncertainty and ambiguity are the third major driver of decision-making. Do clients believe bad things will happen to them? Are beliefs revised irrationally; for instance, do clients drop out of a scheme because they do not receive a benefit in the first year? (And if initial beliefs about the payout were false, is take-up a good thing?) Do they trust that the insurer will honour the contract?

Answering these questions helps practitioners understand demand and take-up, improve products and improve client education. They can also help explain why people might choose informal risk-management alternatives over microinsurance products, and how the products might be adapted to incorporate the best aspects of these other mechanisms.

Behavioural experiments can help answer questions about these decision-making factors. An experiment results in much less bias than approaching the same factors with questions in a hypothetical survey. Both lab and field experiments can uncover risk and time preferences and beliefs.

As techniques have grown more sophisticated, experimental economics has achieved acceptance and popularity over the last few decades. Economic experiments are used for a variety of purposes: to test and refine theories, to elicit preferences or beliefs, to model market performance or rational behaviour, and to teach.

Lab and field experiments are two complementary techniques of behavioural economists. Lab experiments are inexpensive and avoid the complications and influences of the field. However, they do not replace field experiments but rather inform them. Later, a field experiment replicates the core elements but adapts the process to a new context. A lab experiment should be judged by its impact on *understanding*, not strict adherence to the field or model.



9 — Glenn Harrison,
CEAR Georgia State University,
USA.

10 — Todd Swarthout,
Georgia State University, USA.



Pre-Conference seminar —
Scientific evaluation methodology

Lab experiments are most effective when participants are compensated.

The type and level of compensation should adhere to three conditions: (1) Non-satiation (more reward is better); (2) Saliency (there are pay-off differences depending on alternative choices); and (3) Dominance (the rewards dominate the costs of participation).

For example, an oft-cited study from 1977 found that people were more willing to buy insurance as the probability of loss increased (holding the expected value constant). However, rather than being compensated with salient financial rewards, participants were awarded hypothetical “points”.

The Georgia State team conducted the same experiment but replaced “points” with monetary rewards. Using this methodology, it got the opposite findings: **as the probability of risk increases, take-up decreases** (holding expected value constant). Compensation influences are clearly the result.

Box 2

As part of the seminar, all participants took part in an experiment.

Firstly, they took a short quiz to “earn” money. The number of correct answers determined the amount of money they had at the starting point.

Secondly, they were given six scenarios that varied by **probability of loss**, the **amount of loss** and the **cost of the premium**. For each scenario, they chose whether or not to buy insurance.

Thirdly, one participant was randomly selected to act out one of the six scenarios. A dice roll (1–100) determined whether the loss took place or not. The participant then received cash, minus the premium (if the choice was to buy the insurance) or the loss (if the choice was not to buy and the loss occurred).

Lessons learnt

- Measuring take-up is easy but insufficient, because it (1) ignores welfare effects and (2) masks the decision-making process underlying insurance purchases.
- Three major factors underlie the evaluation of insurance decisions: risk preferences, time preferences, and subjective beliefs.
- Insurance is just one risk management strategy – it must be assessed in relation to existing tools.
- Compensation is crucial to accurately measuring economic behaviour. Compensation should be high and should vary based on decisions and chance.
- Lab and field experiments are complementary – the former can inform the latter.

Agenda

Day 1 afternoon sessions 12 November 2013

Opening

Welcome addresses

Kornelius Simanjuntak
Chairman, DAI, Indonesia

Firdaus Djaelani
Commissioner of Insurance,
OJK, Indonesia

Thomas Loster
Chairman, Munich Re
Foundation, Germany

Craig Churchill
Chairman, Microinsurance
Network, ILO/Microinsurance
Innovation Facility, Switzerland

Keynote

Muliaman Hadad
Chairman of OJK Board
of Commissioners,
Indonesia

Plenary 1

Distribution

Michael Mandlenkhosi Shezi
Managing Director, Hollard
Life Assurance Company,
South Africa

Thomas Keller
Finance Director, Nestlé,
Indonesia

Eliza Kücükaslan
Milvik AB (Bima), Sweden

Facilitator

Brandon Mathews
Managing Director, StoneStep,
Switzerland

Opening and welcome addresses

In an apparent sign of upward mobility for the low-income segment, 1,100 motorbikes and 300 cars are added to the streets of Jakarta every day, aggravating the massive traffic jams visitors find on their way from the airport and elsewhere.

The proliferation of motorbikes also reflects a burgeoning middle class. A family of four may start with a car but, to preserve mobility on roads on which the average speed of cars is estimated to decline from the current 20 km an hour to 5 km an hour in the next ten years, the family soon adds four motorbikes; one per person. All told, Indonesia has some 80 million motorbikes on the roads.

“Are all these motorbikes insured?” was what many of the overseas delegates wondered as they got together in Jakarta on 12–14 November for the 9th International Microinsurance Conference. “Not really,” was the answer they got, “but the government has created a third-party insurance programme that only covers bodily injuries and is funded by a levy on vehicle registration fees.” And so the next thought was unavoidable: “Wouldn’t this be a ready and growing market for a micro auto product that supplements the mandatory cover?”

The timing of a question like that was certainly right. Just the month before, Otoritas Jasa Keuangan (OJK), Indonesia’s Financial Services Authority, had unveiled a Grand Design of Microinsurance in concert with Dewan Asuransi Indonesia (DAI), the Insurance Council of Indonesia representing industry players.

The Grand Design is expected to help develop and introduce a regulatory framework as well as microinsurance products across Indonesia by 2016. A Microinsurance Task Force has completed a preliminary assessment of the supply and demand situation and plans further research and analysis in 2014.

Two major priorities are emerging: the creation of interest among the target population, which lacks an understanding of insurance, and the deployment of distribution channels that could cost-effectively serve low-income households spread across the country’s more than 17,000 islands.

Kornelius Simanjuntak, Chairman, DAI, said, as he welcomed the participants, that the conference was being held at an opportune time for Indonesia, just as a roadmap for microinsurance was unfolding. “It provided a rare chance to learn from industry players from other parts of the world and to think about how best to move forward with our own plans.”



11 — Left to right: Kornelius Simanjuntak, Chairman, DAI, Indonesia; Thomas Loster, Chairman, Munich Re Foundation, Germany; Firdaus Djaelani, Commissioner of Insurance, OJK, Indonesia; Muliawan Hadad, Chairman of OJK Board of Commissioners, Indonesia; Craig Churchill, Chairman, Microinsurance Network/ ILO/Microinsurance Innovation Facility, Switzerland.

In Indonesia, it has been important to learn *and* think. Dr. Sukarno, Indonesia's founding president (1945–67), said in a speech in 1961: "Learning without thinking is useless, but thinking without learning is dangerous."

Mr. Simanjuntak noted that with over 400 delegates, representing more than 60 countries, the conference reflected a great interest on the part of the participating countries to share knowledge and experiences.

"This conference is an opportunity for us in Indonesia to learn from industry players from other parts of the world and think about how best to further develop our own microinsurance program, ultimately better serving low-income people."

Kornelius Simanjuntak: Chairman, DAI, Indonesia

Firdaus Djaelani, Commissioner of Insurance, OJK, said the conference for Indonesia was taking place at "a perfect time", coinciding with its agenda to accelerate the development of microinsurance in the country.

The insurance industry in Indonesia has experienced remarkable growth in the last five years, Mr. Djaelani said, with gross premiums rising by 21% annually. Yet overall penetration at 2.02% is still low. And, as the Landscape Study points out, penetration for microinsurance is even lower at 0.56%. Similar to other emerging countries, Indonesia has a low-income population that is underserved with formal insurance. Microinsurance can produce a more inclusive insurance market.

Mr. Djaelani said that the Financial Services Authority has undertaken a wide set of activities to promote microinsurance growth, ranging from meetings with key stakeholders to addressing regulation. "We do understand that many steps still have to be taken further in order to make microinsurance work in Indonesia. We need to enact regulation, to conduct a national awareness campaign, and to improve the capacity of insurance players as well as the regulator."

"Indonesia must undertake a national awareness campaign and enact a regulatory framework to take microinsurance further."

Firdaus Djaelani, Commissioner of Insurance, OJK, Indonesia

"The International Microinsurance Conference has grown substantially since 2005, when the first one was held in Munich attracting 90 participants. This year 400 are taking part from a record 60 countries."

Thomas Loster, Chairman, Munich Re Foundation, Germany

Thomas Loster, Chairman of Munich Re Foundation, said that this is the third time that the International Microinsurance Conference is being held in Asia (it was held in the Philippines in 2011 and in India in 2007). "It is exciting to be back in a region that is so advanced in microinsurance. In Asia, more than 170 million people have access to microinsurance, and social protection schemes exist for over 1.6 billion people. It is possible to reach a large scale when the government is involved."

Mr. Loster noted that the importance of the International Microinsurance Conference has grown substantially over the years. "This year, not only are a record number of countries represented, but 25% of the participants are from the insurance industry. Their participation shows a clear commitment from the industry to do what they do best – provide protection against specific risks, where and when it is needed."

Opening remarks

Craig Churchill, Chairman,
Microinsurance Network

As I welcome you to the 9th Annual Microinsurance Conference, I want to thank our gracious hosts, Indonesia's Financial Services Authority (OJK) and Insurance Council (DAI). They have allowed us to experience and appreciate this lovely country, a country that can boast some exciting developments in the promotion of better insurance services for more low-income households. We appreciate their showcasing these accomplishments, and for allowing others from across the globe to learn from their experiences.

The Microinsurance Network, with its more than 250 members from over 60 organisations, is proud to co-sponsor this event with the Munich Re Foundation. The Network's strength is its diversity, with insurance companies and NGOs, international agencies and technology companies, academics and actuaries all working together to explore ways of improving the risk management options for those who need this help the most. By bringing together the varied backgrounds and skill sets of its members, the Network is able to generate the synergies and linkages needed to create new approaches to protecting the world's poor.

The importance of insurance is made clearly evident by the typhoon that ravaged the Philippines this weekend, leaving behind a wake of death and destruction from one of the worst natural disasters in Asia in recent decades. While you might argue that for catastrophes such as this, one needs macro insurance, not micro, I contend that they are in fact intimately related. I believe that our efforts to promote better risk management solutions for the world's poor include diverse insurance interventions at the micro and meso levels that ease the burden on reinsurance at the macro level.

With more than 250 members from 60 organisations, the Microinsurance Network generates the synergies of skill sets and linkages needed for a back-to-basics campaign to make insurance relevant to the poor.

Craig Churchill: Chairman,
Microinsurance Network, ILO/
Microinsurance Innovation Facility,
Switzerland

By shining a spotlight on the vulnerability of this target group, we are contributing to the emergence of a range of micro, meso *and* macro insurance offerings to break the cycle of poverty.

I understand that some insurance companies became involved in microinsurance after the tsunami on Boxing Day 2004, another horrific natural disaster in Asia, which resulted in minimal claims for the insurance industry because the tsunami primarily devastated low-income communities that were underinsured. I would like to believe that because of the efforts of this microinsurance community in the intervening years, many Filipinos suffering from the effects of this typhoon will receive at least some solace from an insurance benefit covering lost assets and loved ones. I doubt insurance will benefit the majority of those affected by the typhoon, but hopefully thousands more have some coverage than would have had just a few years ago. I believe we are making progress, but there remains much more to be done.

While natural disasters are the most blatant example of the need for insurance, this conference will cover a full range of ways in which insurance can benefit the poor, including sessions on catastrophe and agriculture insurance, several sessions on health insurance, and one each on life and takaful insurance. A number of the academic sessions also delve into this area of impact, assessing whether low-income households actually benefit from insurance.

Indeed, I am constantly surprised by the ways in which insurance can help people. Just last week there was an article in the *Economist* looking at the issue of girls' education². It compares rainfall data to school attendance in Uganda over more than 20 years and shows that a 15% decrease in rainfall causes a 5% drop in attendance for 7th grade girls, but not for boys. The logic is that if the household knows that their income will be lower because of the poor rains, the girls, who, if educated, are presumed to have a lower earning potential in the future than the boys, are kept home to look after younger siblings and take care of household responsibilities while the mother seeks additional income-generating opportunities. But the boys stay in school. Of course, one of the recommendations of the article was to promote greater access to weather insurance to improve school attendance for girls.

But the article went on to say that this was not a new problem. Apparently, in Victorian England, when working class households experienced a drop in income, it was the girls who suffered the consequences by eating less. The article goes on to say, and I quote, "This situation gradually improved through the growing use of insurance schemes provided by friendly societies to help smooth out consumption."

Indeed, microinsurance is not new, it is just a way of getting insurance back to its roots. **Microinsurance is a back-to-basics campaign for the insurance industry, so it can again become relevant to the people who need it the most.**

²

"When education dries up: New research hints at a better method to ensure girls in Africa stay in school", *The Economist*, 2 November 2013

The insurance industry has tremendous potential to support equitable economic development in emerging markets, but I would argue that it isn't living up to its potential. We need to dramatically expand access to better insurance services to build safety nets and enhance the resilience of low-income communities. And the development impact of insurance isn't just seen at the household level but also within the economy as a whole. By managing and diversifying risks, insurance supports entrepreneurs in making higher-risk and higher-return investments, thus stimulating growth and bolstering economic development.

Now, I am not advocating that the insurance industry support economic development out of goodwill or out of some sort of social responsibility. Quite the contrary, I believe that there are great business opportunities in the low-income market for insurance companies if they can figure out how to make themselves relevant. Not only is microinsurance an opportunity for insurers to access and establish new markets, but the innovations required to serve these markets can have a corresponding positive impact on their core business.

To deal with huge volumes of small premium insurance, it requires new business models that are robust and efficient, often leveraging new technologies and streamlining processes. We are now beginning to see companies that have success with these new approaches and then make similar improvements to their mainstream operations as well. I believe several sessions will highlight the experiences of innovative insurance companies that have successfully waded into the uncharted waters of low-income markets.

To that effect, there will be an interesting session on Day 3 of the conference that will analyse the business case for microinsurance. Hopefully, the evidence presented

in this session will put to rest once and for all any doubts about the viability of microinsurance. I suspect the presenters will show that microinsurance isn't easy and isn't always successful, but in general, if organisations are committed to the market and know what they are doing, if they are willing to stick with it and improve their services over time, they can indeed succeed.

One of the keys to success is the ability to collaborate effectively with other organisations that bring different skills, assets and motivations. Successful partnerships require mutually beneficial arrangements where all parties win, where the whole is greater than the sum of its parts. To that end, the sessions on technology, distribution and scale will illustrate a number of valuable insights.

But scratching a bit below the surface of the business case, one also finds different results for different business lines, with agriculture and health insurance being less profitable on a purely market basis, which opens the door to a conversation about the potential role for subsidies and public-private partnerships.

The issue of subsidies will be tackled and debated in one of the health sessions, and the plenary at the end of the day tomorrow will look at the relationship between microinsurance and universal health coverage. This is a somewhat controversial topic, but hopefully the session will be able to illustrate how the efforts of community groups, NGOs, health mutuals and insurance companies to provide health insurance to low-income families can not only co-exist with, but also reinforce and enhance the effectiveness of government efforts to provide universal health care.

While advertising the conference content, let me also put in a plug for the plenary on Day 3 which synthesises some of the key findings of research on two fronts: one stream that analyses whether low-income households actually benefit from insurance, which we refer to as client value; and another stream that

assesses the viability or profitability of insurance for providers. Of particular interest is the identification of the potential overlap, or the magical balance, where efforts to enhance value also improve viability and vice versa.

The extension of insurance to new markets represents a tremendous opportunity, and a tremendous responsibility. Formal insurance does not come naturally to persons who have never had it before. Consequently, it is absolutely critical that when we do get an insurance policy into their hands for the first time, even if it comes via an SMS, that they have a positive experience with the product and its benefits.

This reminds me of an old saying, "Needing insurance is like needing a parachute. If it isn't there the first time, chances are you won't be needing it again."

That is to say, if they do not have a positive experience with insurance, then we may have muddied the waters and it may take years, perhaps even a generation to have another opportunity. This requires a coordinated effort to ensure that this new market witnesses the benefits that insurance brings. The objective is to create a culture of insurance so that low-income households trust the promise of the insurers and naturally see insurance as part of their risk management toolkit.

I believe in the power of insurance to change people's lives, to protect their health and their assets, and to give them peace of mind to make investments for the future. Through our discussions over the next two and a half days, we can hopefully make a small contribution to enhancing the availability of quality insurance services for the working poor, which will also benefit their communities and their countries, and play a pivotal role in delivering the promise of microinsurance.

Keynote address

Muliaman Hadad, Chairman
of OJK Board of Commissioners,
Indonesia

This 9th International Microinsurance Conference is an excellent forum for accelerating the development of microinsurance not only in Indonesia but worldwide as well. Through sharing valuable experiences in both microinsurance challenges and innovations, participants will gain broader knowledge of microinsurance and how it works in different market situations, from product innovation to business process and distribution. For regulators and supervisors, the conference offers the opportunity to build greater understanding of supportive regulation and supervisory approaches.

The role of microinsurance

Many academic papers have indicated the potential impact of microinsurance on insurance markets, in particular those of emerging economies. In these economies, low-income people represent a large portion of the population, so an increase in insurance products for them stands to have broader significant impacts.

It is of particular importance to view the development of microinsurance within broader national strategies for alleviating poverty and improving quality of life, especially for low-income people. Usually, they do not have the capabilities to respond to shocks such as natural disasters or the death of a breadwinner, so that their protection against these events is critical.

Microinsurance further stands to improve the productivity of their communities. For example, increased access to banking and other funding sources allows individuals to increase their business capacity. It is for this reason that the potential role of microinsurance has attracted interest from market players as well as multilateral organisations, non-governmental organisations and development agencies.

Opportunities and critical issues

In Indonesia, we recognise that some insurance players have started to provide microinsurance. In addition to this, the Financial Services Authority of Indonesia (OJK) has a strong commitment to supporting the development of microinsurance as part of the strategy on financial inclusion.

As we move forward in developing microinsurance and unfolding its potential in the national economy, at least five critical issues should be considered:

Product design, ensuring simple and client-driven design. Products should be valuable (meeting clients' needs), accessible and efficient. The application of advanced technology is necessary to support these requirements. Some microinsurance products are complementary and integrated into other financial products, such as savings or credit-related insurance. Microinsurance product design should therefore consider other financial products to serve clients' needs even further.

Another aspect of product design to be considered is the availability of data collection features (database building). Data should be available for tracking, retrieval and analysis to allow prompt adjustment of pricing and the product features.

Product awareness and consumer protection

which are critical for trust building. They are a pre-requisite for financial inclusion, including microinsurance. Poor knowledge of diverse insurance products, including how the products work and their likely costs, may prevent individuals from making full use of existing insurance products appropriately. Consumer awareness is about building trust. The higher the customers' knowledge of microinsurance products, the more they will trust in the use or purchase of microinsurance products.

Low levels of awareness about existing regulation and consumer protection may result in a lack of confidence in the financial services provider and reduce the demand for financial products. The promotion of microinsurance should therefore include financial literacy programmes to address demand-side barriers and help individuals to access and use appropriate financial products.

Availability of affordable

microinsurance products, without compromising consumer protection. This should be the key success factor for microinsurance development. In many countries, low-income people live in communities spread far and wide so that the distribution of insurance products through traditional delivery channels, such as insurance agents, could lead to high costs. This in turn could lead to high insurance premiums, which are a barrier on the demand side. Therefore, innovations in products, delivery and operations are important to make microinsurance products not only available in the market but also affordable for low-income people. However, insurance premiums must be calculated with a clear consideration of the risk, and even from the start, they must cover the costs of expected claims.

Claims services, without sacrificing prudential aspects and a necessary level of controls. Claim settlement processes should be as simple and straightforward as possible. Complex claims procedures will only frustrate legitimate beneficiaries. They can make customers reluctant to buy microinsurance products. The whole process of settling claims has to be efficient and simple for beneficiaries while still maintaining the appropriate level of control. I believe that the speed at which claims are paid is a key competitive advantage for microinsurers.

Integration of microinsurance development programmes within a broader financial inclusion strategy, where social security, natural disasters management and microentrepreneurship are integrated to promote financial inclusion and empower the low-income population. Microinsurance should be complementary to and conducted in the same platform as these empowerment programmes. Moreover, these social programmes could also be used as a vehicle to promote microinsurance. For this reason, effective coordination among key stakeholders should be in place.

All in all, the development of microinsurance is not only the responsibility of the insurance regulators, but also of all the stakeholders. Such a mission will be successful as long as all stakeholders concurrently give adequate attention to this work in their respective fields.

In closing, I would like to convey my high hopes of the fruits of this conference. I understand that there is a full agenda for this three-day conference and I wish you every success in these deliberations.



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12 — Muliaman Hadad,
Chairman of OJK Board of
Commissioners, Indonesia



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Workshop on introduction and pricing for microinsurance

13 — One day before the 9th International Microinsurance Conference, OJK hosted a workshop that provided an introduction on microinsurance and actuarial pricing. Moch Muchlasin, Directorate of Sharia Non-Bank Financial Institutions, OJK and Chairman of the Task Force on Indonesia Microinsurance Development, presented the Indonesian “Grand Design of Indonesia Microinsurance”, a framework for the next steps in microinsurance of the local market.

14 — Nearly 250 insurance experts from Indonesia participated in the workshop.

15 — Left to right: Nigel Bowman, independent actuarial consultant, South Africa; Sarah Jane Phelan, ILO/Microinsurance Facility, Burkina Faso; Amar Mehta, Milliman, Indonesia.



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“Microinsurance continues to be an ever evolving field embracing innovation in both product design and distribution. For me the biggest ‘take away’ is that microinsurance is not just about finding appropriate and affordable premiums and cover, but is about offering good value for money to low-income people for any insurance products they purchase — finding the magical balance combining the business case for microinsurance with client value.”

Lemmy Manje, ILO/FinMark Trust, Zambia

“Fantastic to see evolution of schemes, learnings and the greater availability of evidence of client value and reflection - makes for more honest and realistic conversations.”

Aparna Dalal, Consultant at the ILO, USA

Press conference

16 — Left to right: Arman Oza, CEO, National Insurance VimoSEWA Cooperative Ltd. India; Craig Churchill, Chairman, ILO/ Microinsurance Innovation Facility, Switzerland; Kornelius Simanjuntak, Chairman, DAL, Indonesia; Firdaus Djaelani, Commissioner of Insurance OJK, Indonesia; Dirk Reinhard, Munich Re Foundation, Germany.

17 — Around 50 journalists participated in the press conference, here in an interview with the Commissioner of Insurance Firdaus Djaelani.



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18 — Indra Catarya Situmeang, representative of DAL at the Conference Steering Committee and outstanding supporter of the conference organisers.

19 — Munich Re Foundation’s organisation team. Left to right: Chona Habibi, Indonesia Life Insurance Association, Indonesia, Dirk Reinhard, Analisa Gradim Pedro, Christian Barthelt, Petra Hinteramskogler, Torsten Kraus.



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20 — The exhibition area provided a space for organisations (here the Microinsurance Centre) to present their work and interact with participants.

21 — Participants in parallel session 11 (Education) working on the instructions of a game developed by IRI to explain index insurance to farmers.

Plenary 1

Distribution

This plenary discussed the distribution of small-scale products and strategies to reach the rapidly rising numbers of emerging consumers in countries such as India, China, Indonesia and the Philippines.

The panel started the discussion by defining “the emerging consumer”. Although the definition varies with each country’s characteristics, emerging consumers in general can be categorised as those who can earn at least US\$ 200 per month, whether they are in formal or informal occupation. By that token, Indonesia has at least 20 million fast-emerging consumers.

Emerging consumers share many characteristics, beginning with income and vulnerability and stretching into access to services and aspirations for the household. Nonetheless, the group is so large that it cannot be considered as entirely homogeneous. Some people in the group might lack formal education and have no access to financial services while others may work as school teachers and already have a bank account but no insurance; “one size does not fit all.” Product segmentation is essential, as is the provision of choices to attract wider groups of consumers.

Tips from the food industry

Nestle has been in Indonesia for 40 years. It sells its products through two million outlets here using 4,000 direct/indirect and 150 direct distributors. Product categories range from dairy, infant nutrition and health care to confectionary, coffee, beverages and breakfast cereals. Indonesia is one of Nestle’s larger markets and even still fully one-third of all revenue there is earned on products that retail at US\$ 0.10 per unit or less.

Nestle regards emerging consumers as those who have risen above subsistence levels and can exercise consumer choice. These consumers want value for money – a good price too, but extra value.

What matters, in Nestlé’s experience, is delivering high quality in the right sizes and locations for convenient access: emerging consumers may want to buy products today for use today. Nestlé has tailored its products to meet consumer preferences and purchasing power, helping them manage their cash flow. Nestle believes that educating the sales force is the key to educating the end-consumer. Success in dealing with emerging consumers has required an ability to deal with emerging retailers and emerging distributors.

Figure 2
Integrated value chain of Nestle



To keep products affordable, Nestle optimises each step in the value chain – “from the farm to the fork.” Supply chain management is the key to cost-effective distribution – creating shared value among different stakeholders, from farmers to end-consumers (see Figure 2).

Nestle always prioritises the needs of society and integrates environmental and social causes in its core businesses as well as its charitable and research efforts. In just one example of a partnership with HIVOS (Humanist Institute for Cooperation) – a Dutch development organisation that supports rural innovations – Nestle provides biogas digesters for dairy farmers to mitigate pollution through renewable energy.

Using the distribution channel to keep customers

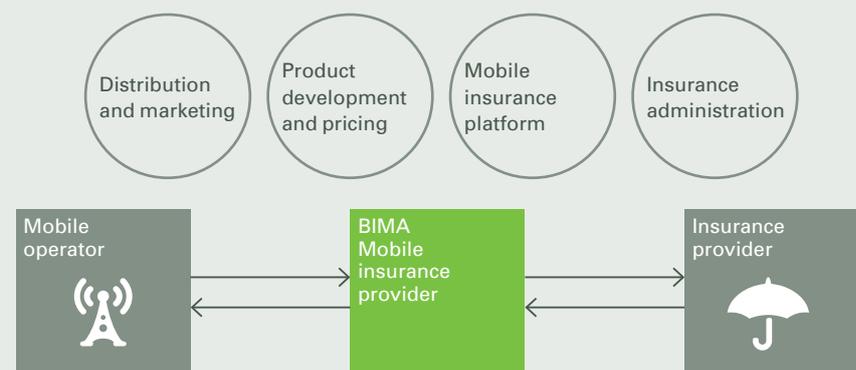
In the developing countries of Asia and Africa, mobile technology has mass appeal and figures prominently in microinsurance distribution to emerging consumers. A recent service company supporting growth in the channel is BIMA, which insures low-income people in partnership with mobile network providers (see Figure 3) in seven countries: Ghana, Tanzania, Senegal, Mauritius, Bangladesh, Sri Lanka and Indonesia. In Ghana, it teamed up with operator Tigo and insurer Express Life to offer insurance free of charge to mobile phone users. To qualify, customers must meet a monthly airtime requirement. They can choose to double the free coverage by paying a nominal premium. The insurance offer is of interest to mobile operators because it helps them retain customers and earn their loyalty in markets where users frequently juggle phones and SIM cards to get the cheapest rates.

BIMA claims to keep customers engaged by researching the product impact. Customer feedback on the existing product and service is used to design new products. Prompt after-sales and claims service is also viewed as critical. In mobile distribution there is no room for a long-claim-form requirement.

A low-cost agency force for affordable products

Hollard (South Africa) is a composite insurer with six million policyholders and gross premiums of US\$ 1.5 billion. Its involvement in microinsurance is marked by significant low-cost agency experience across a number of channels: retail, remote and full-field fulfilment, credit-linked, funeral home, church, branch and sport affinity.

Figure 3
Insurance through mobile operators



Source: Küçükaslan, Eliza. Presentation “Mobile technology for distribution.” 9th International Microinsurance Conference 2013.

22 — Left to right:
Thomas Keller, PT Nestlé,
Indonesia; Eliza Küçükaslan,
Bima, Sweden; Michael
Mandlenkhosi Shezi, Hollard
Life Assurance Company,
South Africa.

23 — Facilitator:
Brandon Mathews, StoneStep,
Switzerland.



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Plenary 1
Distribution

Hollard describes a member of its low-cost agency force as:

- Warm blooded,
- Servicing the low end of the market,
- With minimum education qualifications,
- Earning a salary that is largely variable,
- Selling simple affordable products in a non-advice mode,
- Unemployed before taking on this first job as a platform to the next one.

The low-cost agency model (LCAM) was built up for a number of reasons:

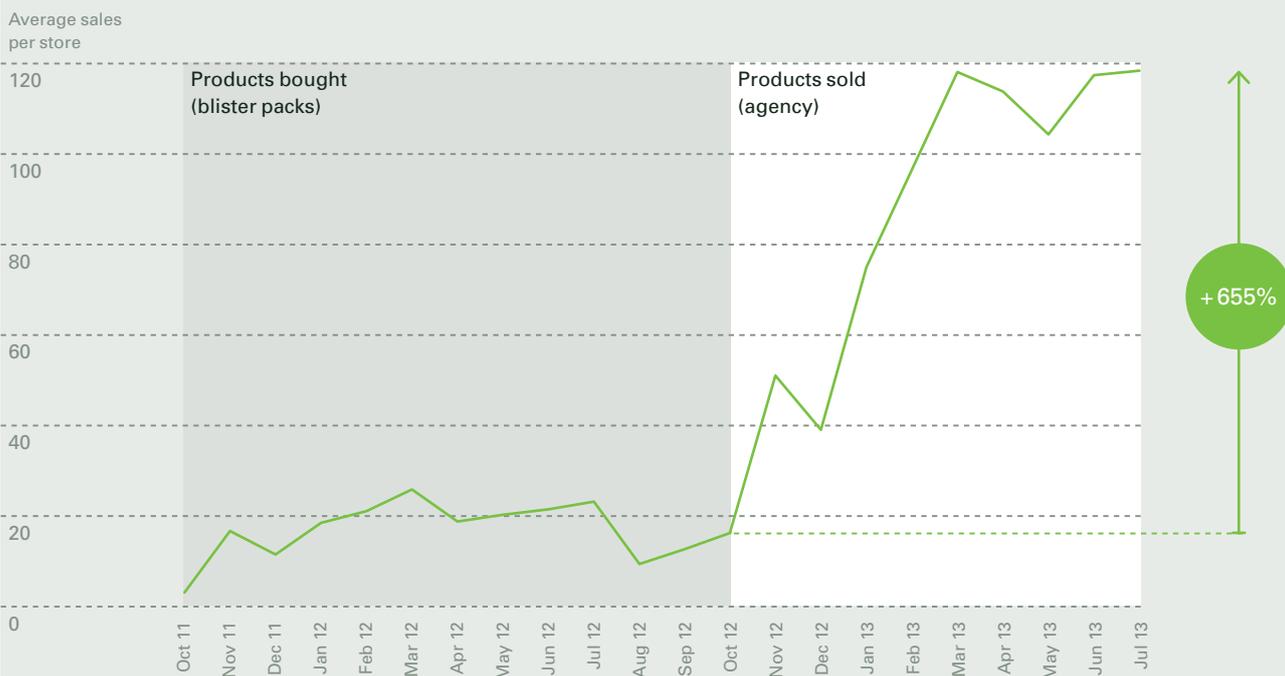
- To build trust (face-to-face relationship),
- For tangibility (physical presence),
- For customer convenience (engaged where they are),
- For customer education (through face-to-face interaction),
- Footprint flexibility (agents can move to identified areas).

LCAM need not replace a call centre or other channels. Hollard believes distribution is not about agents and one channel, it is about integrated channel management. Various channels must complement one another (see Figure 4), enabling the provider to deliver the value proposition not just at the POS but throughout the value chain.

Lessons learnt

- Emerging consumers want value for money: good price and extra value.
- The segmentation of products enables consumers to choose one that suits their needs and their budget.
- Recruitment of the right persons for the low-cost agency model is crucial; they should feel at home in the agency force and in the low-income market.
- Educating the sales force is key to educating customers.
- Integrated value chain management is crucial, with multiple channels complementing one another and helping create “shared value” among stakeholders.
- Bundling the insurance programme, such as collaboration with mobile communication companies to increase consumer loyalty.

Figure 4
Insurance is both bought and sold
Insurance sales through a retailer



Source: Shezi, Michael Mandlenkosi. Presentation “Lessons in Low Cost Field Agency Distribution.” 9th International Microinsurance Conference 2013.

Agenda

Day 2 morning sessions 13 November 2013

Plenary 2

The landscape of microinsurance in Asia and Oceania

Arman Oza

CEO, National Insurance Vimo SEWA Cooperative Ltd., India

Reuben Summerlin

Regional Technical Advisor for UNCDF, Pacific Financial Inclusion Programme, Fiji

Emmanuel F. Dooc

Insurance Commissioner, Insurance Commissions, Philippines

Antonis Malagardis

Programme Manager, GIZ, Philippines

Richard Leftley

CEO, MicroEnsure, United Kingdom

Birendra Mohanty

Vice President, ICICI Lombard General Insurance, India

Rachel Freeman

Regional Manager, Access to Finance, East Asia Pacific, IFC/The World Bank Group, United States

Facilitator

Michael J. McCord

President, MicroInsurance Centre, United States

Parallel session 1

Distribution: selling microinsurance profitably

Leveraging corporate value chains: a novel, market-based approach to distributing microinsurance

Asher Hasan

CEO, Naya Jeevan, Pakistan

Business case for retailers to provide microinsurance

Herman Smit

Senior Research Associate, The Centre for Financial Regulation and Inclusion (Cenfri), South Africa

Microinsurance in Brazil – Latest developments in education, distribution and technology

Rodolfo Ern

Superintendent, Bradesco Seguros, Brazil

Facilitator

Brandon Mathews

Managing Director, StoneStep, Switzerland

Parallel session 2

Drivers of scale

Eliza Küçükaslan

Global CFO & Country Manager Ghana, Milvik AB (Bima), Sweden

C. Anbarasu

Chief Manager R&D, Agriculture Insurance Company, India

Mia Thom

Engagement Manager, Cenfri, South Africa

Freedom Buthelezi

Head of Retail, Hollard, South Africa

Johnathan Batangan

General Manager, CLIS, Philippines

Facilitator

Craig Churchill

Chairman – Microinsurance Network, ILO/Microinsurance Innovation Facility, Switzerland

Parallel session 3

Agriculture

Improving client desirability for the weather index contrast: learning from three interventions

Rupalee Ruchismita

Director, CIRM, India

Agricultural insurance and PPP to reach the rural, small-scale producers of Mexico

Josh Ling

Microinsurance Fellow, AMUCSS, Mexico

Agricultural microinsurance from a reinsurer's perspective

Christina Ulardic

Corporate Solutions, Swiss Re, Switzerland

Facilitator

Oliver Mahul

Programme Manager, The World Bank, Thailand

Parallel session 4

Impact Investment

Jeremy Leach

Director, Bankable Frontier Associates, Cenfri, South Africa

David Steel

Director of Investments, Leapfrog, Australia

Facilitator

Richard Leftley

CEO, MicroEnsure, United Kingdom

Plenary 2

The landscape of microinsurance in Asia and Oceania

This round table explored the state of microinsurance in the region and looked at how to further expand access and enhance the development of microinsurance based on preliminary results from “The Landscape of Microinsurance in Asia and Oceania” study published by Munich Re Foundation and GIZ.³

This study completes the “World Map of Microinsurance”, following similar landscape studies in Africa, Latin America and the Caribbean. The final report is expected to be published by July 2014.

Outreach, coverage and growth

The study found that 172.8 million individuals and properties have microinsurance coverage in Asia and Oceania, excluding social microinsurance and informal insurance schemes.⁴

Over 99% of the total microinsurance coverage in Asia and Oceania comes from only 10 countries. India leads the way with 111.1 million people covered, followed by the Philippines and China

with 19.9 million and 11.9 million lives covered respectively.

The total number of insured people as a percentage of the population in Asia and Oceania is low at 4.36%; only four countries have a microinsurance coverage ratio of >5%. The Philippines ranks first (21.3%), followed by Thailand (14.0%), India (9.2%) and Bangladesh (6.2%).

Rapid growth

Microinsurance in the region is growing at an impressive rate. The compounded annual growth rates from 2010 to 2012 registered a 31% increase in coverage and a 47% increase in premiums. India alone contributed 70% to the region’s overall microinsurance growth. Malaysia and Indonesia expanded their own microinsurance coverage by 185% and 103% respectively. Vietnam is the only country in which microinsurance activities decreased because of regulatory matters.

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For details on the “Landscape of Microinsurance in Asia and Oceania” see www.microinsurancelandscape.org

4

Informal insurance schemes are defined as community-managed and are not underwritten by any formal/semi-formal institution, whereas social microinsurance refers to microinsurance programmes where premiums are fully or largely subsidised by the government and underwritten by insurers.

24 — Arman Oza, National Insurance VimoSEWA Cooperative Ltd., India, lead author of the study “The landscape of Microinsurance in Asia and Oceania”.

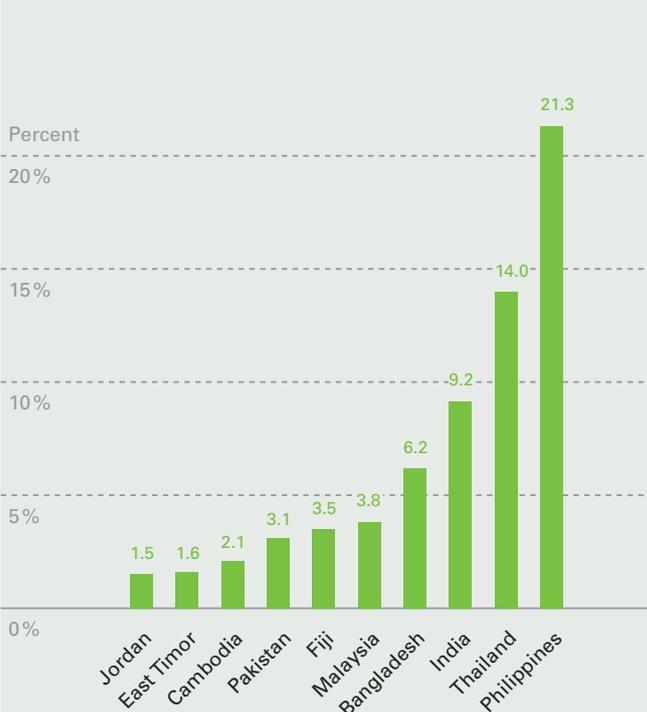
25 — Left to right:

Emmanuel Dooc, Insurance Commission, Philippines; Antonis Malagardis, GIZ, Philippines; Reuben Summerlin, Pacific Financial Inclusion Programme, Fiji.

26 — Left to right:

Rachel Freeman IFC/The World Bank Group, USA; Birendra Mohanty, ICICI Lombard General Insurance India; Richard Leftley, MicroEnsure, UK; Facilitator: Michael McCord, MicroInsurance Centre, USA.

Figure 5
Top 10 countries on microinsurance coverage ratio*



*Total number of insured people as a percentage of the total population
Source: “The landscape of microinsurance in Asia and Oceania 2013”, briefing note



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Most of the microinsurance products are life, in particular term life/credit life, or accident, followed by health and agriculture. Regulated commercial insurers are the main providers, yet the most commonly used distribution channels are insurance agents, member organisations, microfinance institutions and remittance banks. Distribution via employers, retailers and mobile technology is still marginal and can be developed further.

To complement commercial microinsurance, social microinsurance in Asia and Oceania covers approximately 1.66 billion individuals and properties in only 12 of the countries surveyed. More than 90% of the social microinsurance schemes provide health coverage and 7.8% cover agricultural risks – two product lines that present major challenges to the business case for commercial microinsurance.

Roadmap to success

Finance-development institutions play a crucial role in the development of the market. Organisations such as the International Finance Corporation (IFC) focus their efforts on developing the entire insurance industry in underserved countries. Microinsurance is part of the overall approach.

To strengthen private sector insurance companies, the IFC provides strategic investments and training on financial literacy. The main focus, however, is on product innovation and effective distribution channels to reach a broad and inclusive target client base. In the Philippines, for example, the IFC works with the Centre for Agriculture and Rural Development (CARD) insurance agency and Pioneer Insurance and Surety Corporation to design new insurance products to protect Filipino farmers against typhoon-related losses.

To reach economies of scale and prove the business case for microinsurance, MicroEnsure (UK) has shifted its focus from product innovation and financial education to scaling and mass distribution via mobile phones. This distribution model is suitable for simple products such as life and accident and serves as an entry point to a client base that has never had

insurance coverage before. This model gives the client the opportunity **to have a positive experience with a simple insurance product before subscribing to additional coverage.**

The newly launched joint venture between Telenor Pakistan, Jubilee Life Insurance Company and MicroEnsure Pakistan Limited sells 100 new policies per minute.

Regulation of the microinsurance industry is still in a nascent stage. India's microinsurance regulation, the first mature regulatory framework in Asia and Oceania, sets a quota for every insurance company that must be dedicated to the social and rural sector. A key aim was to encourage insurance companies to explore new markets and expand their business through more inclusive products. In the Philippines, a stakeholder approach including government and private sector representatives emphasised **the need for government intervention and subsidies where the private sector cannot carry all the risk** (e.g., crop insurance and natural disasters). However, rather than crowding out commercial insurers via subsidies, government and regulators need to create an enabling environment for microinsurance growth by granting tax incentives.

While focusing on the specific needs of certain target groups within a country, the Pacific Financial Inclusion Programme aims to build a regional market across six Pacific Island countries with a total population of ten million. A major challenge for each individual state is the improvement of access to insurance while making sure that supervision is effective and protects policyholders. **Building an inclusive regional market needs to go hand-in-hand with sound and prudent insurers.** This needs to be underpinned by a robust and effective supervisory framework for the six Pacific Island countries, which is key to attracting the risk capital and investments needed for insurance market development in the region.

Box 3

Key numbers

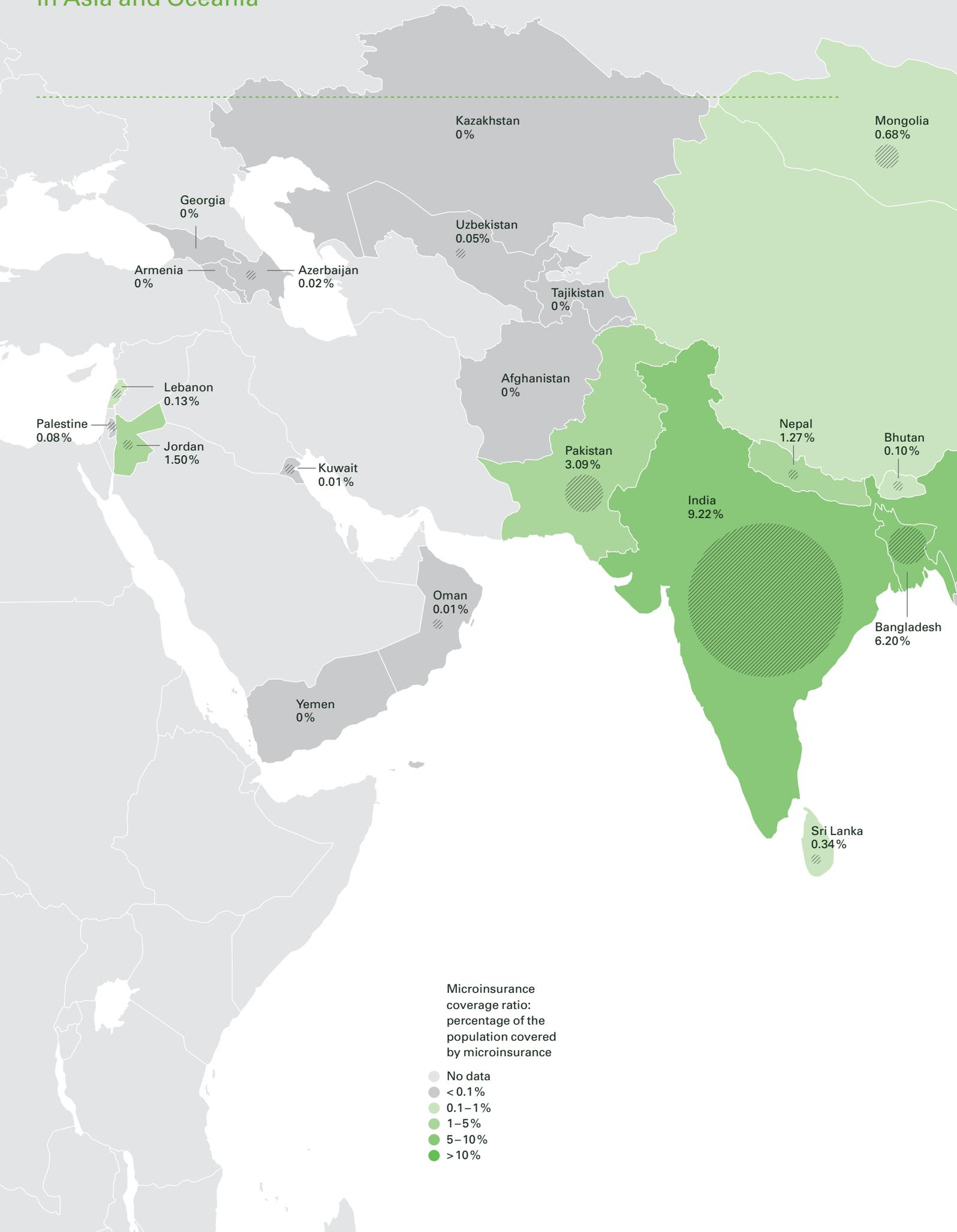
31 countries evaluated
 24 countries with microinsurance
 250 respondents
 216 providers with 500 products
 172.8 million lives/properties covered by contributory and/or co-contributory schemes
 Life: 83.9 million
 Health: 27.9 million
 Accident: 77.8 million
 Property: 7.7 million
 Agriculture: 26.2 million
 Takaful: 4.7 million

Source: Briefing note, "The Landscape of Microinsurance in Asia and Oceania." 9th International Microinsurance Conference 2013

Lessons learnt

- Traditional products and delivery channels are leading to more innovative products such as endowment, additional benefits insurance and index-based products, as well as more innovative distribution channels such as retail and mobile technology-based distribution.
- To expand access and product offerings beyond traditional markets, think "outside the box", integrate regional diversity such as micro-takaful insurance and develop mobile microinsurance to penetrate markets such as small island states.
- Governments are considering the provision of protection via social microinsurance schemes, particularly for healthcare, to complement commercial microinsurance.
- To be successful, microinsurance needs to be embedded in an enabling environment comprising a conducive business setting combined with a strong push for insurance industry development and financial inclusion.

Microinsurance coverage in Asia and Oceania



Microinsurance coverage ratio: percentage of the population covered by microinsurance

- No data
- < 0.1%
- 0.1–1%
- 1–5%
- 5–10%
- > 10%

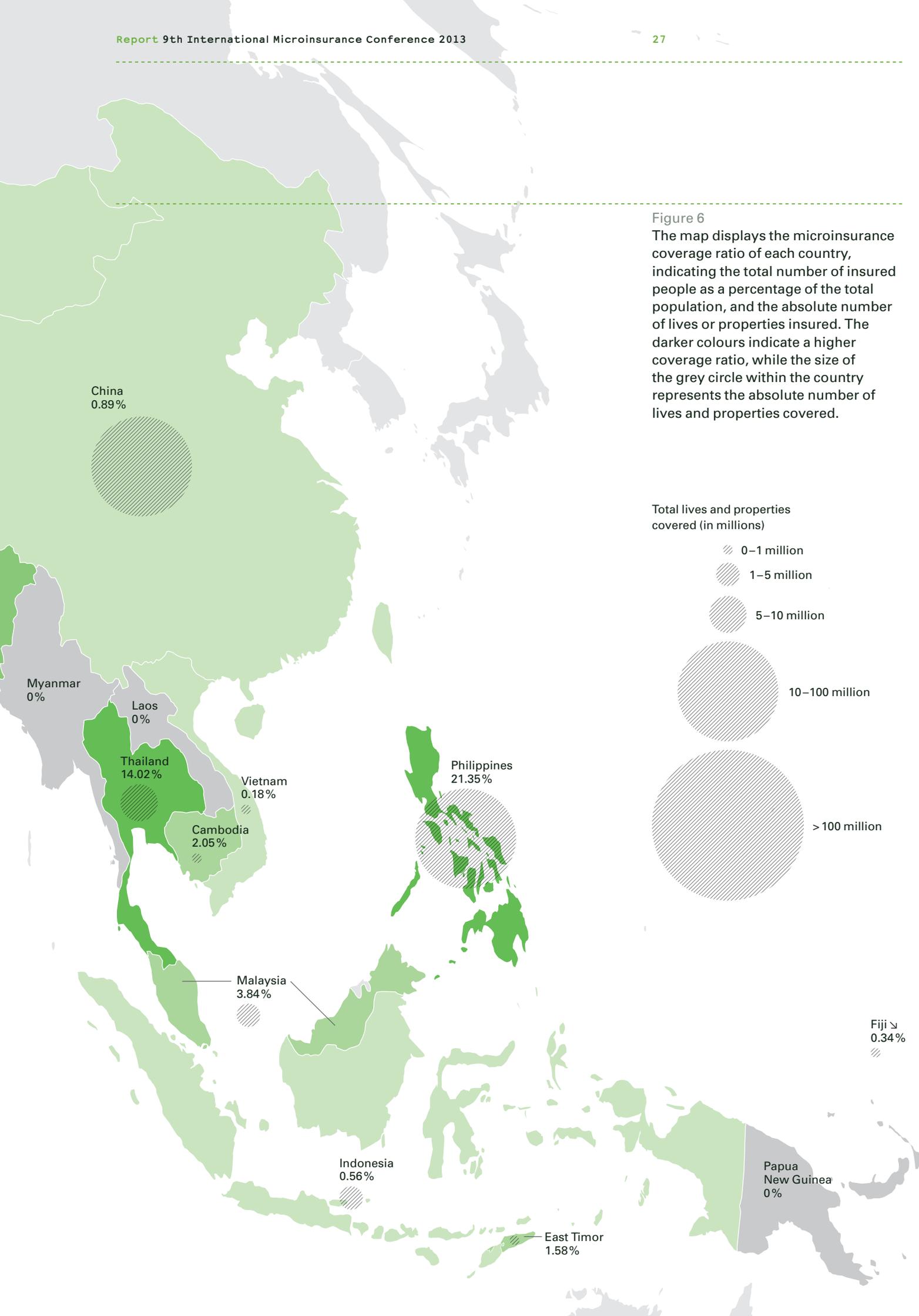
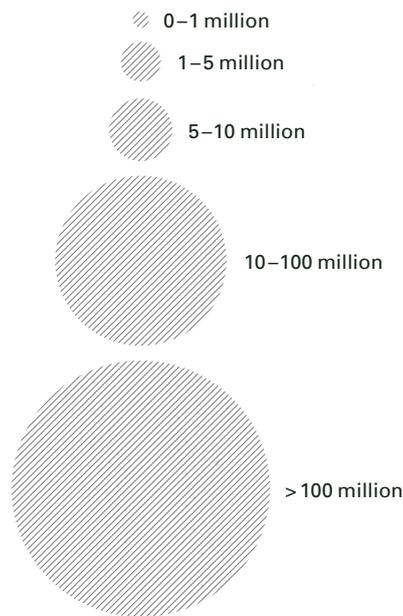


Figure 6

The map displays the microinsurance coverage ratio of each country, indicating the total number of insured people as a percentage of the total population, and the absolute number of lives or properties insured. The darker colours indicate a higher coverage ratio, while the size of the grey circle within the country represents the absolute number of lives and properties covered.

Total lives and properties covered (in millions)



Parallel session 1

Distribution: selling microinsurance profitably

This session discussed initiatives to promote and sell microinsurance to people in different settings in three countries: Brazil, South Africa and Pakistan.

In **Brazil**, a major financial services provider is enhancing the use of technology in an innovative network of distribution points to educate and deliver microinsurance to customers in remote areas such as the municipality of Autazes in the Amazonas state. In South Africa, a case study has shown what motivates retailers to offer financial services and help providers design effective partnerships with them. In Pakistan, a new health microinsurance model is aimed at enrolling marginalised low-income workers who do not have access to any health care or insurance.

Banking correspondents of Brazil

In Brazil, “banking correspondents” are not natural persons, as the name might imply, but rather commercial entities – for example, a post office, lottery outlet or small retailer – whose primary business is not financial services. Together they form a broadly-used distribution channel in Brazil that has succeeded in expanding access to geographically remote areas and the poorer segments. They distribute financial services in underserved areas and places that are too small for bank branches.

More than 42,000 banking correspondents belong to the Banco Bradesco network, associated with the country’s biggest insurer, **Bradesco Seguros e Previdência**, which serves 42 million customers through its call centres, the Internet, 374 branches and 41,000 brokers.

Banking correspondents for client access are the centrepiece of the distribution model Bradesco is using for remote locations such as Autazes, with technology and supervision provided by “multipliers” facilitating their role (see Figure 7). One hundred percent of the municipalities now have access to financial services, compared with 70% in 2000, and 25% are now served exclusively by correspondents.

Bradesco (Brazil)

“Primeira Proteção Bradesco”

2.6 million policies sold
(between 2010 and 2013)

Insured risks

accidental death, funeral assistance

Premium range

starting at US\$ 1.5

“Bradesco Expresso Premiável”

41700 policies sold
(between 2012 and 2013)

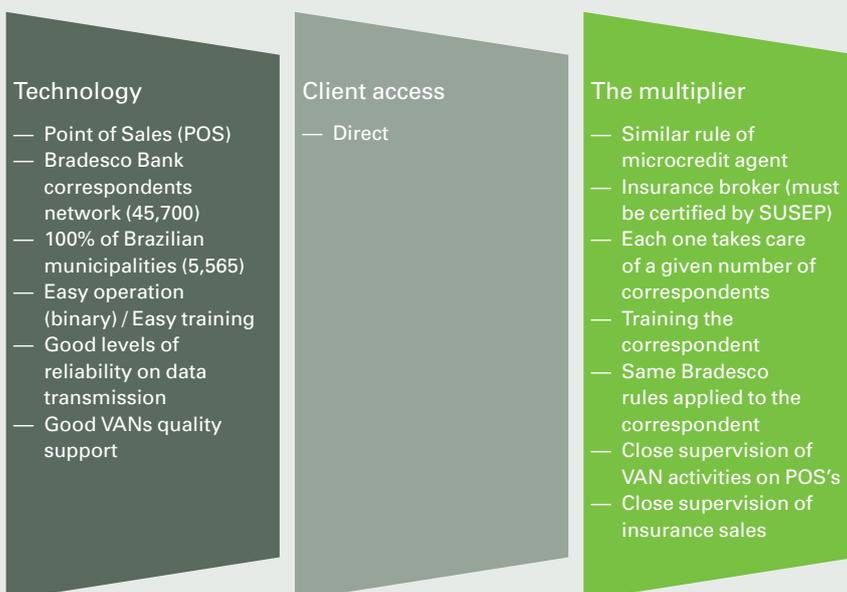
Insured risks

accidental death, funeral assistance

Premium range

US\$ 4.49–10.39

Figure 7
Bradesco’s distribution model for remote municipalities



What draws retailers in South Africa to financial services?

In the study on retailer motivation to offer financial services in **South Africa**, Cenfri found 25 retailers operating in the low-income market, 29 offering 190 financial services products, 25 providing insurance as part of their financial services, and 20 subcategories of insurance offerings including personal accident, legal and health (hospital cash plan) – in fact everything but agriculture. The goods they carry, the payment mode and the frequency of interaction with the customer influence the types of financial services offered.

Retailers of fast moveable consumer goods have the most frequent interaction with clients. Payment is mostly by cash. These retailers typically provide transactional products such as bill payments, social grant payments, cash withdrawals and money transfers. Most of them had provided a basic insurance offering (funeral insurance) but this failed to achieve significant uptake and was discontinued.

For clothing retailers, interaction with customers is traditionally mostly seasonal. Financial service offerings differ greatly between retailers who primarily sell their goods on credit and those who take cash only. Credit retailers have traditionally been more successful in providing insurance products.

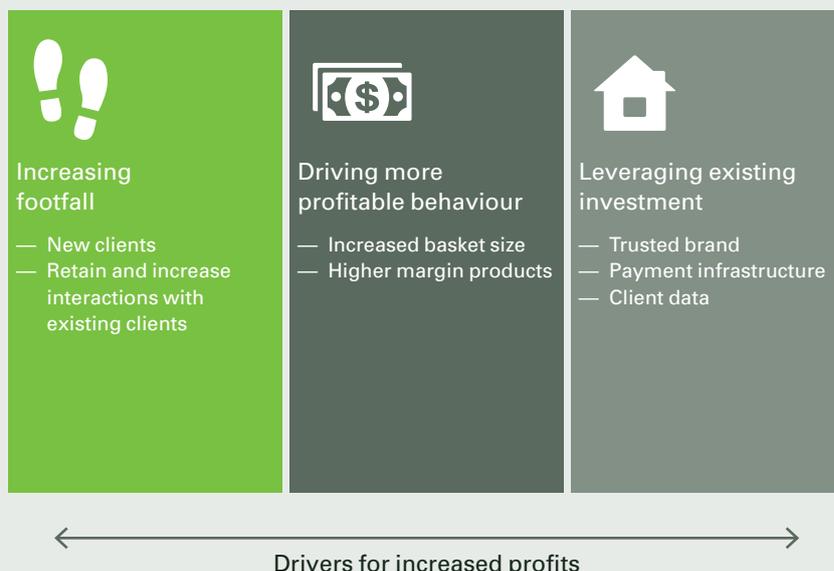
Furniture stores do not typically provide transactional products. This is largely due to the infrequent interaction with the customer – durable goods are bought only once in a while. They do, however, mostly provide credit and insurance. This primarily includes credit life and funeral. Interestingly, only one retailer provided assets insurance.

Ironically, the more frequent the interaction with the client, the less information retailers have about their clients and the weaker the relationship.

Factors motivating retailers to provide financial services were identified as: increasing direct revenue from financial services, merchandise sales and profitability (see Figure 8).

It is notable that increasing footfall⁵ for financial services may cause a destination backfire. It has a negative impact on the shopping experience of other customers while offering high convenience for financial services.

Figure 8
Increased sales and profitability: business case in three broad categories



Source: Smit, Herman. Presentation “What motivates retailers to offer financial services: South Africa case study.” 9th International Microinsurance Conference 2013.

5 The number of people entering a shop or shopping area in a given time.

Parallel session 1

Distribution: selling microinsurance profitably

Recruiting multinationals in Pakistan in a health scheme for low-income workers

Naya Jeevan is a health microinsurance model in **Pakistan** attempting to establish partnerships with multinational and other corporations and SMEs to facilitate the enrolment of low-income employees and the informal domestic workers of higher-income corporate employees. Its business plan includes negotiating commercial group health insurance from established insurers at preferential, below-market rates for its clients. The clients benefit from the bulk-purchasing discount and receive value-added preventive and wellness services with the core insurance product (see Figure 9). The basic cover gives them affordable access to the insurers’ preferred provider network of private hospitals.

Over the past three years, Naya Jeevan has partnered with over 100 organisations to expand this model. An example of this collaboration is with Unilever for its microretailers incentive programme. The 3,000 microretailers in the pilot programme include vendors who sell ice-cream on tricycles or carts and have, for the first time ever, been enrolled in a health insurance plan. The plan is financed by Unilever and administered through Unilever’s vast distribution network.

This market-based sales incentive programme should lead to increased sales and market development for Unilever and an empowered and secure supply chain of potentially hundreds of thousands of distributors, retailers and microretailers.

Lessons learnt

- To access customers in places too remote or too small for branch offices, use a network of existing providers of non-financial services who have a track record in the community. Technology can then facilitate communication, education as well as distribution.
- A number of factors influence provision of financial services by retailers and their degree of success. Use findings of the South Africa case study while designing a partnership with a retailer or using one as a distribution channel.
- A good health care and insurance plan for domestic staff of a corporation’s executives and low-income workers of a business can help safeguard their productivity. Such a pilot scheme is at work in Pakistan and can be replicated.

Figure 9
Naya Jeevan REJUVENATE health plan: an ecosystem of health and wellness



Source: Hasan, Asher. Presentation “Leveraging Multinational Corporate Value Chains: How to Design for Scale, Sustainability & Global Replication!”. 9th International Microinsurance Conference 2013.

27 — Left to right: Asher Hasan, Naya Jeevan, Pakistan; Herman Smit, Cenfri, South Africa; Rodolfo Ern, Bradesco Seguros, Brazil; Facilitator: Brandon Mathews, StoneStep, Switzerland.



Parallel session 2

Drivers of scale

This session identified factors that have allowed microinsurance schemes around the world to reach scale as they strived to achieve profitability.

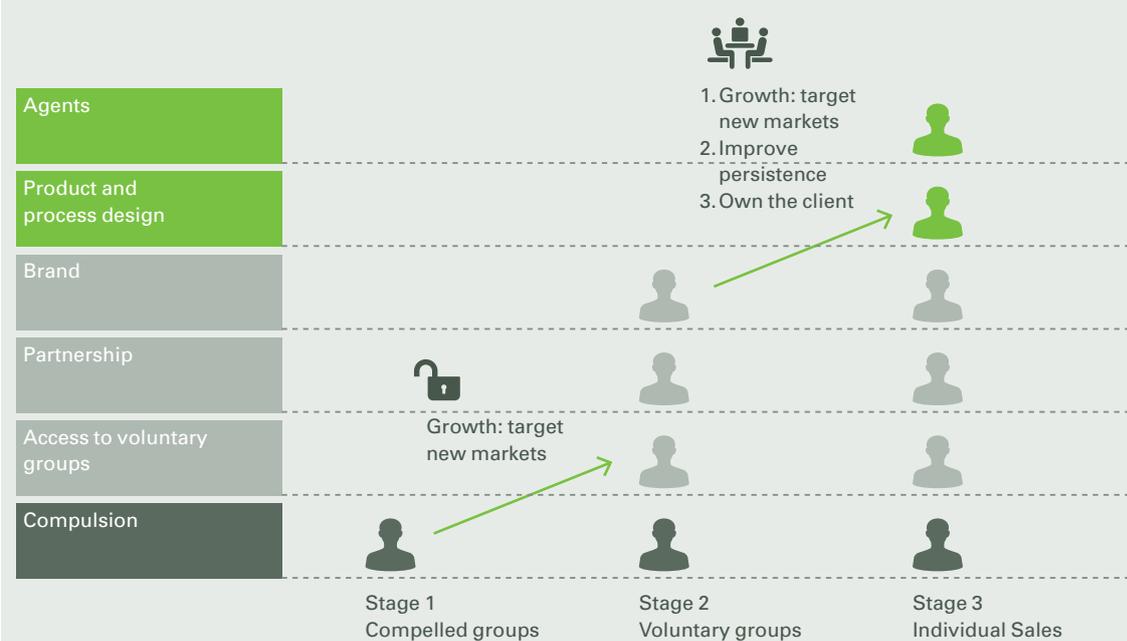
If one defines “scale” as 1,000,000 policies/lives covered in Asia and Latin America and 500,000 in Africa, **95 schemes** qualify: 53% in Asia, 25% in Africa and 18% in Latin America. Unsurprisingly, life, credit life and funeral products represented half of these schemes; health represented the second largest category. Over half were distributed through microfinance institutions, banks or other similar groups.

Surprisingly though, 72% of these schemes had voluntary components, and only 50% had subsidies, dispelling the myth that products must be compulsory and subsidised to achieve scale.

From this pool of 95 products, Cenfri (South Africa) constructed eight case studies representing a variety of regions, product types and distribution channels, to determine what these successful products had in common.

Drivers of scale were both internal and external. The major internal drivers are **compulsion**, access to **voluntary groups**, **partnerships** with organisations that already have a large footprint, **brand** and **product/process design**. The major external drivers are **subsidy** and **latent demand** (see Figure 10).

Figure 10
Drivers of scale by stage



Source: Thom, Mia. Presentation “Thinking Big: Drivers of Scale.” 9th International Microinsurance Conference 2013.

Parallel session 2

Drivers of scale

These drivers differ, depending on the stage of the product's development:

Stage 1: Compelled group sales

At this stage, the key driver is the compulsion of a group (e.g., MFI borrowers). With low distribution costs and a captive client base, this stage allows the insurer to experiment. However, clients may have low awareness of the product due to auto-enrolment, and products may not meet clients' needs.

Stage 2: Voluntary group sales

Achieving scale at this next stage requires access to groups, a strong partnership with another organisation and a powerful brand name. The group model offers ample advantages, as group sales keep distribution costs low. However, partner remuneration costs can be high, and the product design might suit the partner better than the client. Some products may prefer to leapfrog over the compulsion stage and skip directly to voluntary group sales. In this case, latent demand and subsidy are helpful to kick-start sales, and a strong sales push coupled with an affordable product and a convenient sales strategy (such as a tick box) becomes crucial.

Stage 3: Individual sales

At this level, product and process design becomes even more important, and agents become central to the sales strategy. While distribution costs grow considerably in an agent-based strategy, the product is tailored to meet the needs of clients. It is difficult to skip directly to individual sales, especially without a partner.

Products that achieve scale tend to do so quite quickly if providers were "thinking big" from the beginning and willing to experiment along the way.

Four companies shared factors that propelled them to scale:

BIMA, a mobile insurance provider that enables mobile network operators (MNOs) to sell insurance in partnership with insurers in developing markets, is active in seven countries: Ghana, Tanzania, Senegal, Mauritius, Bangladesh, Sri Lanka and Indonesia. For BIMA, **partnerships** with MNOs are a crucial part of reaching scale, as they provide the customer base, the brand and the payment platform. In some markets, experimenting with **free trials** has been effective: in Ghana, working with Tigo, BIMA launched a free product and invited clients to convert to a paid product with a higher level of coverage after one year; 80% of the clients converted to the new product. In some countries, the mobile partner has chosen to launch the offer with a paid product; in those cases, the **product design** itself must be appealing. **Agent-based sales** and **automatic premium deduction** have also played a role in outreach and retention.

BIMA (Sweden)

Number of people insured
over six million in seven countries

Insured risks
life, personal accident,
hospitalisation

Premium range
free – US\$ 5 per month

Hollard (South Africa)

Number of people insured
seven million (35–45% micro)

Insured risks
life, funeral, cell phone, vehicle,
hospital cash, legal

Premium range
US\$ 6.65–7.53 for funeral insurance

CLIS (the Philippines)

Number of people insured
15 million

Insured risks
personal accident

Premium range
US\$ 0.62 for 4 months

AIC (India)

Number of people insured
26 million

Insured risks
crop failure

Premium range
US\$ 5.3 per hectare

Hollard is a self-defined **partnership** organisation in South Africa with a range of insurance products and models that vary according to partner. Its strategy is to identify a partner with a large customer base, infrastructure for leverage and aspirations for core business with whom it jointly designs a product. It maps all the potential **touch points for sales** – such as client database, call centres, walk-in outlets – and all contact moments when a client might buy or renew a product. Monitoring these points and maintaining communications with clients has allowed **retention** to remain high. For Hollard, the solution is not an evolution from one strategy to another but rather a **mix of strategies**: compulsory, “tick box”, sachet and agent-based. It credits its integrated approach to sales as one of the major reasons it has achieved scale.

CLIS (Cebuana Lhuillier Insurance Solutions) sells voluntary personal accident insurance through a 1,500-branch pawnshop chain in the Philippines. Although it had sold sachet microinsurance products for years, sales grew by 1,500% after it trained its branch personnel as microinsurance **agents**. The **pawnshop network** itself is able to manage the bulk of the administration and claims. Recently, the company launched a “Microinsurance on Wheels” campaign to increase financial literacy through mobile van offices in low-income rural and urban areas, and is recruiting beneficiaries as sub-agents. CLIS boasts 60–70% retention rates through SMS (short message service) **renewal reminders**.

AIC (Agriculture Insurance Company) is a joint effort of India’s Ministry of Finance and Ministry of Agriculture providing crop insurance to small farmers. Some 60–65% of covers are **compulsory** and linked to agricultural loans; the remaining 35% are voluntary. At this point, the government **subsidy** for the premium has grown from 10% to nearly 100% for the poorest farmers. AIC sells insurance through a network of 600,000 **government terminals** at village level and a supplementary team of **sub-agents** during the sowing season. **Retention** is high, as claims payments are frequent and beneficiaries tend to stay on.

Lessons learnt

- Drivers of scale are different at each stage of a product’s evolution. Compulsion may be a useful way to kick-start sales; afterwards, partnerships, agents, and client-centred product design become more important.
- With each scale strategy, there is a trade-off between distribution costs and responsiveness to client needs.
- Some products evolve from one sales strategy to another, but the most successful seem to benefit from a mix of methods. These depend on cost, target market, and the partners’ infrastructures.
- Retention may be just as important as new sales: in the words of Hollard’s Freedom Buthelezi, “As we load the bucket, we must make sure the bucket is not leaking.”

28 — Left to right:

Mia Thom, Cenfri, South Africa;
Eliza Küçükaslan, Bima,
Sweden; Freedom Buthelezi,
Hollard, South Africa; Jonathan
Batangan, CLIS, Philippines;
C. Anbarasu, Agriculture
Insurance Company, India.



28

29 — Facilitator:

Craig Churchill, Microinsurance
Network/ILO/Microinsurance
Innovation Facility, Switzerland.



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Parallel session 3

Agriculture

Although poor farmers in developing countries face a wide array of risks, their uptake of agricultural microinsurance policies has to date remained low. Session 3 examined this phenomenon from the perspective of three experiments in India, a public-private partnership (PPP) in Mexico, and the experience of reinsurer Swiss Re in sub-Saharan Africa. It focused on obstacles to (and trade-offs implicit in) achieving scale, the role of subsidies and private sector actors in increasing coverage, and potential steps for dealing with emerging factors.

Can tinkering improve policy appeal?

Proceeding from the premise that small changes can increase a product's desirability, the Design and Research Labs at India's Centre for Insurance and Risk Management (CIRM) addressed uptake problems by studying ways in which bundling, customisation and intermediation might raise consumer demand for weather index-based microinsurance policies (see Figure 11).

To test bundling, CIRM collaborated with several organisations to offer 48-hour advanced weather forecasts alongside microinsurance schemes for rice and potato growers in two Indian states. As a supplement to coverage for climactic variations, participating farmers paid 50 rupees (US\$ 0.80) to receive forecasts by text message. Researchers hypothesised that, by improving farmers' planning capabilities, weather reports would further reduce their risks and, by extension, increase uptake rates.

In the second experiment, CIRM and its partners allowed farmers in 110 villages to select the specific crop phase (sowing, growing or harvesting) and coverage extent of agricultural microinsurance policies. Here, researchers tested whether purchasing microinsurance in cheaper and more customised "building blocks" would raise demand by increasing transparency, addressing farmers' liquidity issues more effectively and tailoring policies to their perceptions of the risks involved.

In the third study, Pioneer Seeds facilitated the sale of index-based microinsurance policies while replacing farmers' seeds under certain conditions. By lowering transaction costs (which in India can reach up to 40% of premiums) and providing added value through the seed replacement service, researchers likewise theorised that intermediation would increase uptake.

Although the first experiment succeeded in generating significantly higher demand, the second and third did not – the second because of competition from highly subsidised policies, and the third due to administrative problems involving unmanageable paperwork. However, each study contributed valuable information about scaling agricultural microinsurance programmes while still providing relevant coverage. The intermediation trial pointed out the importance of process in successfully delivering a promising product. The building-block study demonstrated the power of subsidies in directing customers towards less customised or potentially applicable (but more affordable) solutions for agricultural risk management.

Partnering to reduce coverage gaps

Mexico's government created self-insurance agricultural funds to protect farmers against climactic risks in 1998. However, a vulnerability study conducted recently by the Asociación Mexicana de Uniones de Credito del Sector Social (AMUCSS) revealed that many low-income farmers were not benefitting because of the financial difficulty of insuring smaller plots.

To extend coverage to these individuals, the AMUCSS microinsurance unit (Red Solidaria de Microseguros Rurales, or RedSol) partnered with the government's programme to aggregate poorer smallholders into insurable groups in the country's Chiapas, Veracruz and Puebla states. The resulting product, named RedSol-Agricola, safeguards clients' incomes and food security against weather and other perils via the farmers' investments or the actual crops themselves. Government-supplied reinsurance and subsidies by crop and region guarantee the plan's financial viability, while RedSol capitalises on AMUCSS' strong connections with local financial services providers to provide the necessary enrolment, training and administrative functions.



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30 — Left to right: Christina Ulardi, Swiss Re, Switzerland; Josh Ling, AMUCSS, Mexico; Rupalee Ruchismita, CIRM Design and Research Labs, India.

31 — Facilitator: Olivier Mahul, The World Bank, Thailand.

RedSol-Agricola (Mexico)

Number insured

1,985 producers (as of March, 2013)

Covered risks

drought, flood, hail, fire, extreme temperatures, frost, hurricane, cyclone, tornado, wind, plague, plant diseases

Premium range

MXN160.16 (US\$ 12.47) – MXN 913.13 (US\$ 71.08) per hectare per annum (for the 2013–2014 growing season) not including subsidies

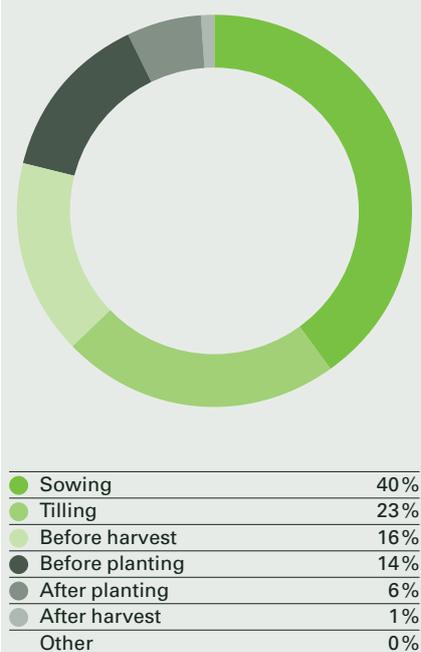
A blunt and distortionary role of subsidies was observed in the second CIRM experiment. However, the RedSol-Agricola experience shows that, when used appropriately, subsidies can facilitate the uptake of properly designed products by otherwise financially excluded populations – such as low-income smallholders concentrated in Mexico’s disproportionately poorer, rural and more indigenous south. It likewise demonstrates the benefits of stakeholder cooperation and making use of each collaborator’s strengths. RedSol-Agricola lived up to its promise as a result of rate-setting, reinsurance and subsidies provided by the government enhancing RedSol’s on-the-ground outreach and administrative work. Furthermore, by reinvesting unused reserves each year into the communities involved (for example, purchasing for farming equipment they need), RedSol-Agricola creates goodwill. It has helped achieve the AMCUSS development objectives while inculcating an insurance culture among participants.

though specialised providers do sell access to certain indices. Other new and increasingly popular data sources include the market prices of covered crops, which determine farmers’ incomes and the amount of microinsurance protection they require.

Providers are likewise offering more complex, sophisticated and customisable policies. These include policies that bundle protection for multiple risks, triangulate between several data sources, cover different growth phases and insure varying combinations of inputs, outputs and other costs.

Alongside these advances, stakeholders are becoming cognisant of other vulnerable actors in the agricultural value chain: input suppliers and providers of storage, transportation and processing services. By expanding the definition of potential clients to include these players, agricultural microinsurance can increase its market size, uptake, and chances of success.

Figure 11
When farmers indicate that it’s important to receive weather forecasts



Source: Ruchismita, Rupalee. Presentation: “The truth in tinkering: improving client desirability for agricultural index insurance experiments.” 9th International Microinsurance Conference 2013

A reinsurer’s perspective

Although the value of collected premiums keeps growing, agricultural microinsurance penetration remains low because of the difficulty of scaling non-compulsory products. For microinsurers and reinsurers, this line is hardly profitable because of high loss levels.

Swiss Re currently covers about 250,000 farmers (or an extremely small percentage of the smallholder populations) across 20 African nations. But innovations in data sourcing, policy design and clients’ eligibility criteria are potentially poised to reverse these trends.

Agricultural microinsurance previously depended largely on information generated by weather stations. The emergence of satellite data is enabling microinsurers to price less expensively and service products. This is because satellites provide wider coverage over longer timeframes – statistical information and content that are typically free,

Lessons learnt

- Subsidies are a double-edged sword and must be applied judiciously.
- Product standardisation allows scale achievement but can cause unintentional exclusions or the provision of less-relevant coverage.
- Partnerships facilitate the achievement of scale by lowering transaction costs and increasing volumes through intermediation and aggregation.
- In a partnership, participating organisations should focus on their fields of strength.
- High transaction costs make microinsurance unattractive to clients and unsustainable for providers.

Parallel session 4 Impact investment

Warren Buffet and Bill Gates have both touted impact investing as a promising way of putting one's wealth into service – to both do good *and* make money. The Global Impact Investing Network (GIIN) defines impact investments as "investments made into companies, organisations and funds with the intention of generating a measurable, beneficial social and environmental impact alongside a financial return." There is a notable interest of impact investors in microinsurance, but limited knowledge of how to invest in it and what the opportunities are. This session tried to fill the gap.

Microinsurance investment landscape

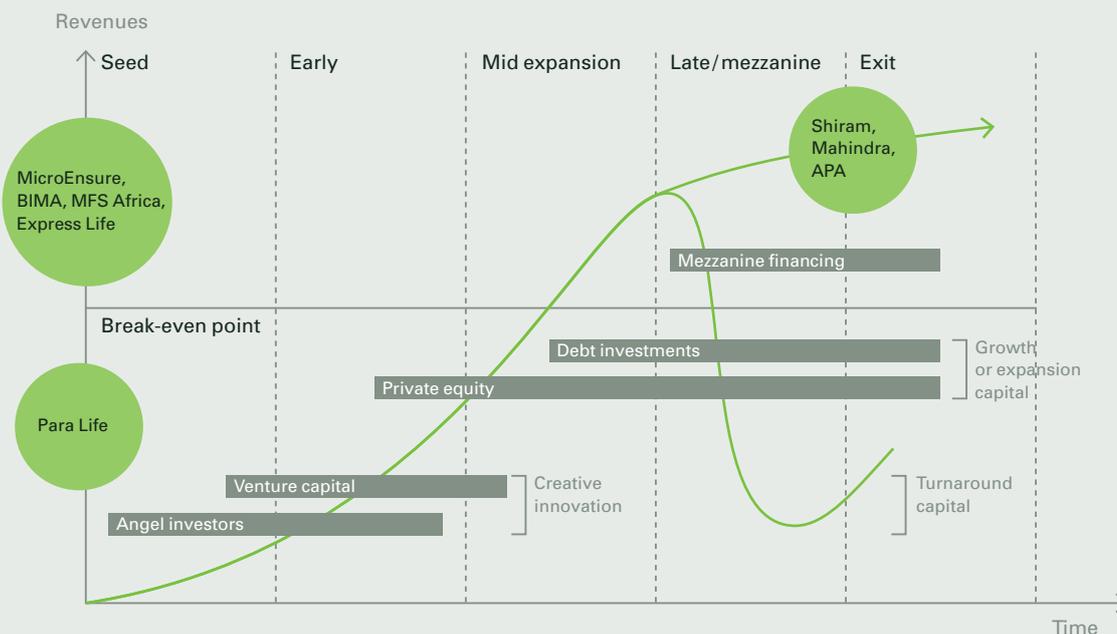
Bankable Frontier Associates (South Africa) commissioned a landscape study on impact investing in the microinsurance industry. The study identified 25 such investments from a variety of investors, ranging from development finance institutions and private development investors to investment funds and strategic investors, among others. The principal investor in this group is International Finance Corporation.

Investments were found to typically fall into the US\$ 8–15 million deal size. At the same time, deals so far tend to be bifurcated between early-stage and late-stage funding with little in between. This indicates a mismatch between the deal size that microinsurers are seeking and the larger sums investors are looking to invest (see Figure 12).

Donors are well-suited to provide technical assistance and grants to support the microinsurer in preparing for these larger investments. Regulation may also be modified to permit innovative models that allow for efficient investments at smaller levels.

Africa leads in the number of investments but with smaller ticket size. A growing number of global deals can be observed. Investments in Africa, Latin America and the Caribbean see investors backing insurers, while investments in India typically revolve around distribution and brokerage. Investments in technical service providers, understandably, have a global focus. The study found that the expected return on investment was generally low for private equity.

Figure 12
Bifurcation of microinsurance deals between early-stage and late-stage funding



Source: Leach, Jeremy. Presentation "Exploring new frontiers: The potential of microinsurance investments." 9th International Microinsurance Conference 2013.

Key characteristics of microinsurance investments

The drivers of microinsurance investment are split between primary needs surrounding capital, and secondary needs often surrounding networks and business development.

The study also found that there are five primary deal options for investors, each incorporating unique risks (see Figure 13).

Challenges for investors

There remain considerable challenges which investors will need to navigate. Insurance is already a demanding model for private equity because of the high liquidity and regulatory requirements. There are few opportunities for leveraging and the move to profitability is typically slow and long-term. Additionally, profitable models take longer to appear than is typically expected by investors, even with strong growth. True commercial viability is also not yet proven on a large scale across multiple products.

Investors in microinsurance, therefore, are strengthening advisory models to include engagement in building the business (seen in the role taken by Leapfrog Labs), courting distribution businesses from which to leverage off investments and utilising insurance as an enabler for the existing core business (as in mobile insurance models).

Future outlook for microinsurance impact investing

There also exists a variety of opportunities around microinsurance investments. These include:

- Enactment of microinsurance legislation recognising a class of microinsurers, which may create a need for their capitalisation;
- Increasing capital requirements;
- Downscaling models which require capital and technical assistance;
- Leveraging existing financial inclusion investments and efforts such as microfinance;
- Investing in the private branches of public-private partnerships.

A number of actions are needed to support investors, such as:

- Addressing the currently small ticket size of investments;
- Developing advisory capacities to support investors;
- Adopting investment principles or standards;
- Developing infrastructure to support investments; and
- Identifying gaps in microinsurance for investor focus.

The low penetration rates in these markets demonstrate that there is an incredibly large amount of room in the area of microinsurance impact investing.

Figure 13
Primary deal options for investors

Option	Dedicated micro-insurer	Technical service providers	Broker/ Intermediary	Distribution business e.g. retailer, MFI, Mobile operator	Mainstream insurer – going downstream
Risks / concerns	Business case still broadly unproven for mono-line business	Thin margins and often exposed part of the value chain/ Risk of being crowded out	Value added in the case of low advice/ no advice models may be limited	Insurance may not be a core priority. Limited to the size of the client base.	Lack of interest in micro-insurance – keen on own comfort zone
Examples of investment deals	Para Life (various) Covision South Africa (Hollard)	BIMA (LeapFrog) MicroEnsure (various) MFS Africa (Angel investor)	Mahindra (Leapfrog)	FINO (IFC) Shiriam (Leapfrog)	Crystal Life (LeapFrog) APA (Leapfrog)

Source: Leach, Jeremy. Presentation “Exploring new frontiers: The potential of microinsurance investments.” 9th International Microinsurance Conference 2013.

Parallel session 4 Impact investment

Measuring impact: what are investors looking for?

At LeapFrog Investments it is considered important to measure the impact of investments on an investment-by-investment basis, rather than utilising one universal approach. This recognises the vastly different impact each investment can have, such as an investment in technology versus an investment in a distribution channel or in an insurer itself. In this context, synergy is critical and investors who not only value financial but also social returns must be identified. Concurrently, LeapFrog hopes to pave the way for further investment by demonstrating the healthy financial returns of microinsurance.

Platforms connecting investors and microinsurers will also be important for the industry to move forward. In the meantime, alternative strategies will be critical such as the one utilised by LeapFrog. The investor chose to begin in those markets in which it was already familiar with insurance providers, and expanded to other markets once high-profile deals gave it visibility there.

Lessons learnt

- There is still substantial room for expansion in the area of microinsurance impact investing.
- A range of deal options exist for investors, each posing unique risks.
- There is a mismatch between the deal size microinsurers are seeking and the larger sums investors are looking to invest.
- New opportunities for investment are emerging as a result of microinsurance legislation creating a class of microinsurers, increasing capital requirements, downscaling models and developing public-private partnerships.
- Support for investors is needed in the form of investment standards, infrastructure to support investments and opportunities to connect with microinsurers.



32 — Left to right: Jeremy Leach, Cenfri, South Africa; David Steel, Leapfrog, Australia; Facilitator: Richard Leftley, MicroEnsure, United Kingdom.

Agenda

Day 2 afternoon sessions 13 November 2013

Parallel session 5	Parallel session 6	Parallel session 7	Parallel session 8
Microinsurance in Indonesia	Technology	Health 1	Academic research 1
<p><u>Kornelius Simanjuntak</u> Chairman, DAI, Indonesia</p> <p><u>Firdaus Djaelani</u> Commissioner of Insurance, OJK, Indonesia</p> <p>Facilitator <u>Ngalim Sawega</u> OJK, Indonesia</p>	<p>Mobile technology for enrolment and claim in cattle insurance</p> <p><u>Alok Shukla</u> Senior Manager, Tata AIG General Insurance Company Ltd., India</p> <p>Mastering the convergence of micro- and small-ticket insurance microinsurance through differentiation, innovation and partnership</p> <p><u>Thomas D. Meyer</u> Insurance Industry Lead Europe, Africa and Latin America, Accenture AG, Switzerland</p> <p>Insuring the uninsured SAP – Helping the world run better</p> <p><u>Guruprasad Gaonkar</u> Head of Financial Services Industry, SAP South East Asia</p> <p>Facilitator <u>Richard Leftley</u> CEO, MicroEnsure, United Kingdom</p>	<p>The role of subsidies in prompting microinsurance: the case of community health insurance in Kwara</p> <p><u>Olapeju Adenusi</u> Managing Director, Hyegia Community Health Care, Nigeria</p> <p>Comprehensive vs. ‘sliced’ health microinsurance: the value of subsidy</p> <p><u>Barbara Magnoni</u> Project Manager, Client Value, MicroInsurance Centre, United States</p> <p>Cashless out-patient department cover (OPD) for Rashtriya Swasthya Bima Yojna (RSBY) beneficiaries</p> <p><u>Birendra Mohanty</u> Vice President, ICICI Lombard General Insurance, India</p> <p>Facilitator <u>Thierry van Bastalaer</u> Principal Associate, Abt Associates, United States</p>	<p>Price and information type in the demand for life insurance in Mexico</p> <p><u>Jonathan Bauchet</u> PhD student, New York University, United States</p> <p>A spatial econometric approach to scalable index insurance design against drought-related livestock mortality in Kenya</p> <p><u>Apurba Shee</u> Scientist, International Livestock Research Institute, Kenya</p> <p>Microinsurance pricing under the microscope</p> <p><u>Sachi Prucal</u> Senior Lecturer, Macquarie University, Australia</p> <p>Facilitator <u>Richard D. Phillips</u> C.V. Starr Professor of Risk Management and Insurance, Georgia State University, United States</p>

Plenary 3

The role of microinsurance in achieving universal health coverage

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Facilitator
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President, Denis Garand and
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Parallel session 5

Microinsurance in Indonesia

Indonesia has a large population but a low level of financial literacy which is reflected in lower financial inclusion than in neighboring countries.

According to central bank data (Bank Indonesia), as of 2011, the financial inclusion index of Indonesia is 19.6% compared to 98% in Singapore, 73% in Thailand, 66% in Malaysia and 35% in India.

Regulatory framework

The current Insurance Law in Indonesia does not specifically regulate microinsurance, and so far there has been no legal foundation on which to build microinsurance. To increase financial literacy, Indonesia's Financial Services Authority (*Otoritas Jasa Keuangan* – OJK) plans to work with industry players and other stakeholders to design awareness campaign tools.

The Grand Design of Indonesia

Microinsurance launched in October 2013 includes the development of a regulatory framework for drafting specific legislation and guidelines for microinsurance. OJK has commenced the process of obtaining input from all stakeholders to shape the framework. Working with the Coordinating Ministry for Economic Affairs, OJK set up a Task Force on Microinsurance Development in July 2013, consisting of OJK staff and industry association representatives (life, non-life and *shariah*).

OJK realises that microinsurance is distinct and therefore requires a specific approach. It cannot be offered in the same way as commercial insurance products. With the Grand Design providing a roadmap to develop the microinsurance industry, the presence of a legal basis will provide certainty for players and customers alike, in this case people with limited financial capability for purchasing microinsurance.

The characteristics of a microinsurance product should be: simple features and administration, easy to access, economical, fast claim settlement and payment. As for microinsurance policy limits, the current thinking in Indonesia is to have a maximum premium of IDR 50,000 (less than US\$ 5) with the maximum total sum insured of IDR 50,000,000 (US\$ 5,000) per life or per insured object for non-life.

Insurance doing well, microinsurance set to follow

In the five years from 2008 to 2012, the total assets of all insurance companies rose from IDR 243.6 trillion (US\$ 24 billion) to IDR 556.2 trillion (US\$ 550 billion), an average of growth of 25.7% per year. In the same period, total gross premiums grew from IDR 89.99 trillion to IDR 171.62 trillion (US\$ 17 billion), at an average annual rate of 18.1%. Insurance penetration (the ratio of total premium to the GDP) increased from 1.9% to 2.08%, and density (the ratio of total premium to the total population) rose from IDR 393.01 thousand (US\$ 39) to IDR 703.37 thousand (US\$ 70), almost doubling. However, Indonesia still ranks 18th in Asia and 76th in the world.

Meanwhile, although insurance seems to have successfully taken off, microinsurance is barely getting off the ground. Despite the absence of a specific law or regulation on microinsurance, certain legal entities have started offering some microinsurance products: personal accident, savings, fire insurance, life insurance credit, and *takaful* or *shariah* microinsurance. The distribution of microinsurance products takes place through third parties such as rural banks and cooperatives. An example of microinsurance distribution through a cooperative is the Ukabima Saving and Lending Programme in Cilacap, Central Java.



33 — Left to right:
Kornelius Simanjuntak,
Chairman, DAI, Indonesia;
Firdaus Djaelani Commissioner
of Insurance, OJK, Indonesia;
Facilitator: Ngalm Sawega, OJK,
Indonesia.

Parallel session 6

Technology

This session looked at the use of technology as a catalyst for profitability and scale.

Addressing profitability

There has been much discussion about the business case for microinsurance products. Insurers are placing more emphasis on expanding their business into the low-income market and investing in building capacity. Despite these efforts, many of these initiatives struggle to generate profits and penetrate their target markets.

Obstacles in reaching profitability include high acquisition costs and administrative expenses (20–30%), particularly in the microinsurance context of lower premium levels. Profitability depends significantly on the scale of the business, distribution channels and policy servicing. To reach a critical mass and achieve economies of scale, insurance companies could consider converging micro- and mass-market insurance.

Although micro- and mass-market insurance do not target the same customer groups, the sales and operational challenges are similar. Both aim to offer simple and affordable products which are easily accessible to the clients. The key challenges include distribution, sales management and administration (see Figure 15).

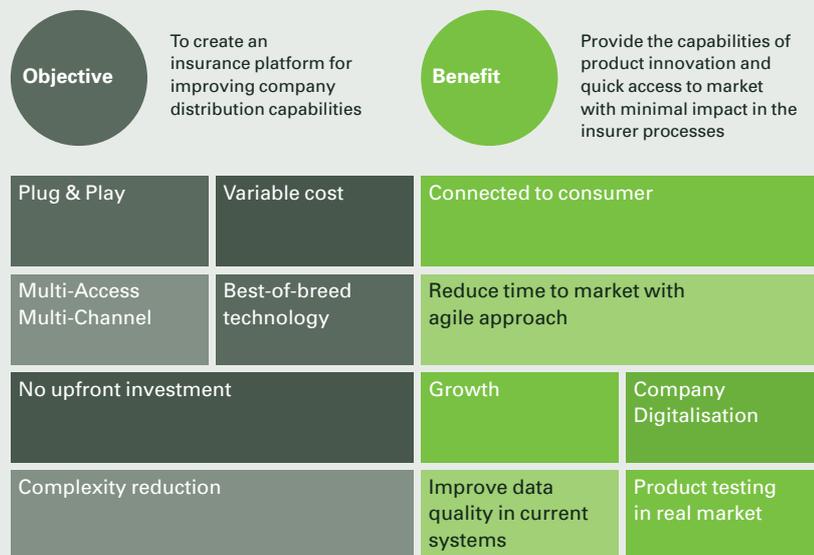
Microinsurance providers are now investing a lot of resources in training, motivating and deploying sales staff in rural areas. Mass-market insurance explores disintegrated innovative platforms to master intermediation and sales. A cost-efficient technology platform enables the insurer to leverage mobile technology and integrate operations and management across the value chain, thus helping to achieve economies of scale. An example of such a technology platform is the PharmAccess consolidated operating model and information management platform, which links the PharmAccess health insurance programme with a future micro health insurance scheme.

The platform aims to increase the consistency, effectiveness and quality of design, operation and reporting of future micro health insurance schemes. Such a technology-based solution is a key element in providing a flexible, scalable and growth-supporting insurance solution which builds the foundation for profitability and a sustainable business case.

Scaling inclusive financial services

In Southeast Asia, 60% of the adult population are unbanked. In stark contrast to this, 600 million mobile subscriptions have a more than 100% penetration rate in the same region. Technology providers recognise this opportunity and leverage the existing mobile network to reach scale through more inclusive financial services (see Figure 16). Early in the process, they seek support and approval for such ventures from financial institutions and regulators in Asia.

Figure 15
Convergence of micro- and mass-market insurance solutions



Source: Meyer, Thomas D. Presentation "Small-ticket Insurance Technology – from microinsurance to mass-market insurance." 9th International Microinsurance Conference 2013.

Inclusive finance aims to deliver financial services such as mobile payments, fund transfers and mobile savings to a new customer group – the low-income population – at an affordable cost. The mobile technology platform enables the financial service provider to reach a large number of clients. The success of microinsurance programmes in Asia can be accelerated by integrating them into the existing financial inclusion ecosystem and infrastructure.

One example of such a partnership is the Talkshawk Mohafiz Zindagi Beema offered by Telenor Pakistan in collaboration with Jubilee Life Insurance Company and MicroEnsure Pakistan (Pvt.) Limited. Talkshawk allows Telenor Talkshawk subscribers with a balance consumption of at least US\$ 2 per month to avail themselves of life insurance for the next month. Talkshawk subscribers can get this free service by simply dialling a service code from their mobile phones. Immediately after the launch, Telenor Talkshawk disseminated 100 new polices per minute.

Case study: leveraging mobile technology for enrolment and claims settlement

In India, more than 100 million families depend on livestock as their primary livelihood source. According to the latest census, the livestock population is 485 million, of which 283 million are cattle. At an average premium of US\$ 10, cattle insurance has a potential market of more than US\$ 2.8 billion in premiums.

Tata AIG Cattle Insurance, India

Number of cattle insured
30,000

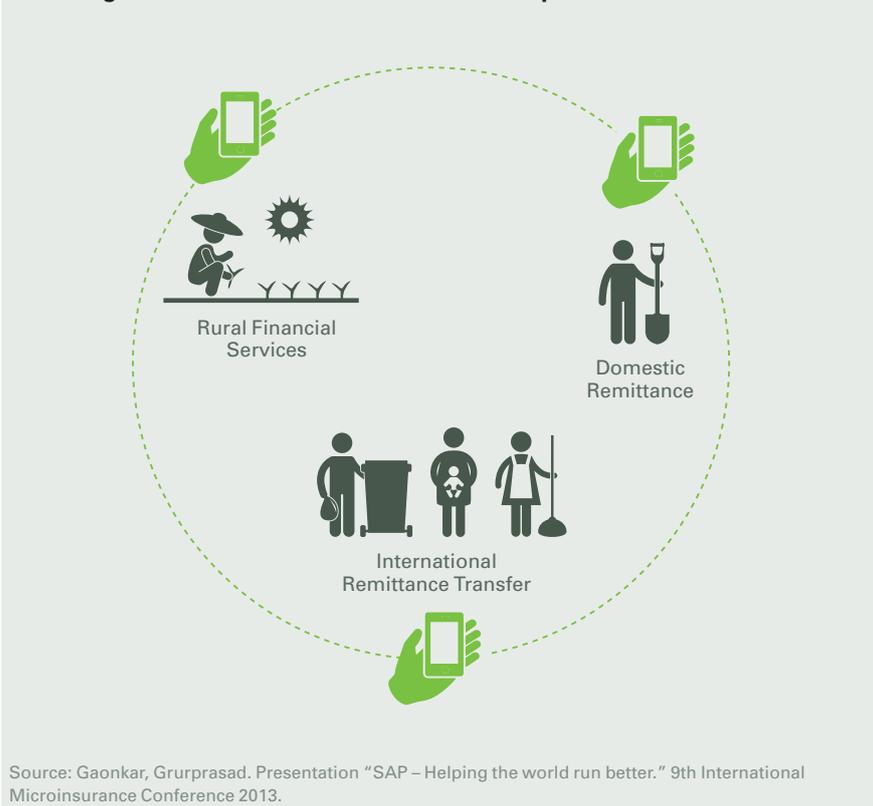
Insured risk
Death of cattle

Premium
US\$ 10 per animal

The first livestock insurance scheme was launched four decades ago but the current penetration is still less than 2%. Tata AIG entered the market in 2005 and by 2013 covered 300,000 animals. Initially, **Tata AIG** partnered with dairies, microfinance institutions and non-governmental organisations to increase the outreach. The insured animals received a polyurethane tag and photos were taken for verification. All claims could be reported on a 24-hour hotline and were surveyed before a payout could take place.

The initial challenge was the vast geographical dispersion and unreliable postal services in rural areas. Moreover, fraud, moral hazard and adverse selection significantly increased the loss ratio, which the low premium of US\$ 10 could not cover.

Figure 16
Providing inclusive financial services via mobile phones



Source: Gaonkar, Guruprasad. Presentation "SAP – Helping the world run better." 9th International Microinsurance Conference 2013.

Parallel session 6 Technology

To improve the product offering, Tata AIG opted for a mobile technology solution. With 929 million mobile subscribers and GPRS (general packet radio service) data services available in rural areas, the system was able to speed up data management by instantly sending data from the field to the central server, issuing policies, settling claims as well as verifying carcasses and validating claims on the spot. A high upfront investment in the software, integration into the core insurance system and training of field agents were the main barriers to rolling out the mobile platform.

However, with all the necessary information about the cattle and owner in one system, claims can be approved within one day and payments can be directly transferred to the beneficiary. As a result, the time needed to issue a policy decreased by more than 50%, claims settlement time decreased by 40% and the clients were more satisfied.

In the next step, Tata AIG will expand this offering to new districts and launch the application in the local language to better meet the local needs and enrol more animals in their cattle insurance programme.

Lessons learnt

- Technology-based platforms can be a key element in providing cost-effective and scalable insurance solutions. To reach a critical mass and justify the high initial investment, microinsurance and mass-market insurance can be combined, since they need to address similar sales and operational challenges within their respective target markets.
- Integrating microinsurance programmes into the existing financial inclusion ecosystem and infrastructure can accelerate market penetration. Start with simple, easy-to-understand products to introduce the concept of insurance, build trust and show the client value by settling claims quickly. More complex products can then be added over time.
- To ensure regulatory conformity on the technology and insurance side, engage regulators early in the process and educate them about the latest market developments and needs and how they can be adequately addressed

34 — Left to right:

Facilitator: Richard Leftley, MicroEnsure, United Kingdom; Alok Shukla, Tata AIG General Insurance Company Ltd., India; Guruprasad Gaonkar, SAP, Singapore; Thomas D. Meyer, Accenture AG, Switzerland.



Parallel session 7

Health 1

The session featured perspectives from: Hygeia Community Health Care (HCHC), a non-profit health insurance scheme in Nigeria, RSBY, a large-scale public-private health insurance scheme in India, and the **MILK Project**⁶, a research study uncovering the client value of seven health insurance schemes in five countries.

In addition to highlighting the salient achievements of each group, – HCHC’s successful partnership with the Kwara state government, RSBY’s fraud-proof biometric SmartCard, and MILK’s client math methodology – presenters debated the value of subsidies, benefits and challenges of different types of health products and strategies to address the supply-side issues of health quality.

HCHC (Nigeria)

Number of people insured
100,000

Insured risks
Inpatient and outpatient health

Premium range
US\$ 2–3 per annum (Kwara, subsidised)

RSBY (India)

Number of people insured
34.4 million inpatient, 250,000 outpatient (pilot)

Insured risks
Inpatient and outpatient health

Premium range
US\$ 0.50 per annum for inpatient, to be determined for outpatient care

To subsidise or not to subsidise?

The advantages of subsidising client premiums are many, especially if **equity** and improved outcomes are the priority. Low-cost premiums make healthcare more **affordable**, protecting more people from high out-of-pocket costs and difficult financing mechanisms. They also encourage mass participation for a wide pool of people, **reducing adverse selection**. In many cases, products launch with a high subsidy to **give clients a “taste” of the product**, and then remove the subsidy once they have earned the loyalty of a large client base.

On the other hand, subsidies can **jeopardise the financial sustainability** of a product. If **targeting is done poorly**, it may extend cheap coverage to those who could afford to pay more. It also carries the risk of **moral hazard** and overutilisation. Heavy **attrition** may result after the removal of a subsidy.

Both products reviewed have some form of subsidy. For RSBY, a public-private partnership, clients pay just US\$ 0.50 for their outpatient care, while the central and state governments subsidise the remainder. This subsidy has allowed RSBY to achieve tremendous scale in India.

In Kwara, HCHC clients currently pay just US\$ 2 of a US\$ 30 annual premium. This subsidy is gradually being transferred from the Dutch Health Insurance Fund to the state government of Kwara, which will cover the bulk of the premium cost starting in 2014. The government’s enthusiastic take-up can be seen as an important step toward universal health coverage in the region.

However, the question was raised as to whether public dollars would be better directed toward the public health system, rather than subsidising a parallel system (see Figure 17).

Inpatient or outpatient care?

It is difficult to separate the question of subsidy from the goals and design of the product itself. Is the goal to save the clients money in the event of a financial shock, or is it to encourage behaviour that will lead to better health outcomes? MILK has studied a variety of inpatient-only, outpatient-only, mixed and vertical disease-based products, and it has found that each product type offers different kinds of value for clients.

Figure 17
Transferring the subsidy to the Kwara state government
Premium, co-premium and subsidy are in Naira (NGN)

	2010	%	2011 – 2013	%	2014 – 2018 (Indicative)	%
Premium	4000	100	4400	100	4300	100
Co-premium	300	7.5	300	6.8	500	11.6
Subsidy HIF	2900	72.5	1900	43.2	790	18.4
Subsidy KSG	800	20	2200	50	3010	70

>>300 naira=US\$ 2.00

Source: Olapeju Adenusi. Presentation “Hygeia Community Health Care. The role of subsidies in promoting microinsurance: the case of community health insurance in Kwara.” 9th International Microinsurance Conference 2013.

Parallel session 7
Health 1

In many ways, **inpatient health insurance is much simpler** than outpatient insurance. Many products, such as RSBY, choose to launch with outpatient coverage only and gradually add other services. Incidence is low – just 5% in the case of RSBY – and this helps maintain **low administrative costs and premium**. Insured clients who are hospitalised see enormous **financial value** compared with their uninsured counterparts. The cost of even an unsubsidised premium is well worth the savings on hospital bills.

In comparison, **comprehensive outpatient care is much messier**. Incidence is higher – RSBY’s pilot indicates 24% – which makes it **difficult to keep premiums affordable without an external subsidy**. Unsubsidised products may have difficulty convincing clients of the product’s financial value. **Overuse** is common, and an extensive administrative system is needed to manage claims.

35 — Left to right:

Olapaju Adenusi, Hygeia Community Health Care, Nigeria; Birendra Mohanty, ICICI Lombard General Insurance, India; Barbara Magnoni, MicroInsurance Centre, United States.

36 — Facilitator:

Thierry van Bastelaer, Abt Associates, United States.



35



36

Comprehensive outpatient insurance, however, is a much more powerful lever for health **behaviour change**. The “use it or lose it” mentality encourages patients to use services that they feel they have already paid for, when they otherwise might have forgone these “skippable” services. This translates to **higher and earlier utilisation** of preventative care – observed by Hygeia and in several MILK studies – which has widespread implications both in improved health outcomes and lower secondary care costs (see Figure 18). This, then, offers another argument for subsidising: **subsidies can encourage take-up of otherwise unaffordable products**, thus improving health behaviour and outcomes.

Both products are undergoing design transitions: HCHC now covers a comprehensive range of inpatient and outpatient services, but is considering the addition of a more limited, lower-cost product. Previously, RSBY offered only inpatient coverage, but is now piloting a more complex outpatient product.

Figure 18
Timing matters: delayed payouts



- Were **not available** for funeral
- People had to **borrow**
- **Erodes** tangibility, **trust**

But...

- May reduce **temptation** for “bigger box”
- Promotes **saving/investment**
- Helps family recover from the loss of a **breadwinner**

Source: Barbara Magnoni, Presentation “Comprehensive vs. ‘sliced’ health microinsurance: the value of subsidy.” 9th International Microinsurance Conference 2013.

What about the supply side?

When aiming for better health outcomes, lowering barriers to demand through health insurance is only half the battle. Presenters discussed both active and passive roles of microinsurance schemes in ensuring the quality of care at their in-network facilities.

HCHC partners with SafeCare, a certification programme making targeted investments in the infrastructure, skills and processes of the clinics in its network. To participate in the HCHC provider network, facilities receive grant and loan support to undergo this process of quality improvement. RSBY, on the other hand, sees itself as a business opportunity for facilities. As its clients can choose from among 800 health facilities, competition is the main driver for quality improvement.

Lessons learnt

- Subsidies play a role in lowering costs, promoting equity, achieving scale and educating first-time clients about insurance. But they run the risk of financial unsustainability, moral hazard and poor targeting.
- Schemes face a trade-off between financial value and behaviour change. Simple, cheap inpatient products offer large savings but only small behavioural incentives; complex outpatient products are more expensive, but have much greater power to change health behaviour and outcomes.
- Insurance companies can play either an active or passive role in ensuring the quality of care for providers in their network.

Parallel session 8

Academic research 1

This session discussed customer purchasing decisions in Mexico, microinsurance pricing in the Philippines and an innovative index-based livestock insurance approach in East Africa.

Pricing and marketing for purchasing decision

The loss of a loved one can lead to enormous stress, both emotional and financial. In Mexico, for example, funeral costs represent half the annual income of many of Compartamos Banco's microfinance borrowers. Yet, despite the potential of life microinsurance to alleviate some of this pressure, take-up remains low on average around the world.

Compartamos (Mexico)

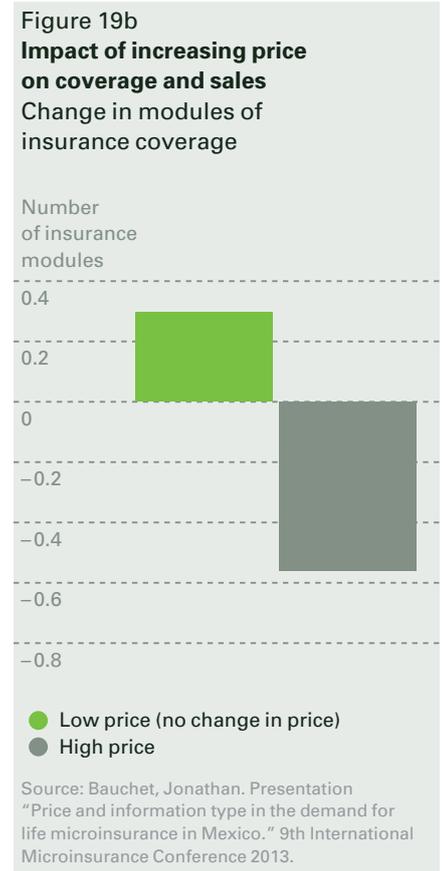
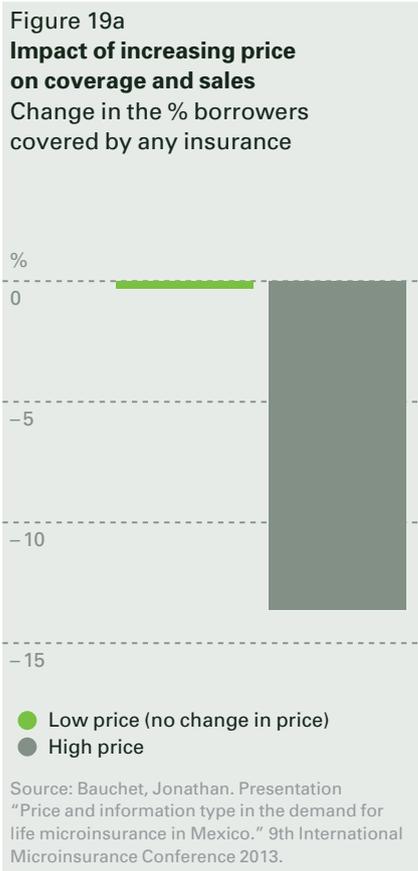
Number of people insured
1.8 million individuals

Insured risks
Life

Premium range
MXN 57 (US\$ 4.5) per module of MXN 15,000 (US\$ 1,175) of coverage for the 16-week loan cycle

A Microinsurance Learning and Knowledge (MILK) randomised control trial (RCT) sheds light on why this is so, measuring the impact of price and marketing on term life insurance purchase for Compartamos' female borrowers. This product is sold in modules, where the first module is provided for free as a form of subsidy. The RCT **price** intervention eliminated the subsidised module of coverage for some clients but not for others. When subsidised coverage was removed, clients purchased more coverage, although not enough to achieve their previously subsidised coverage level. The Compartamos experience supports the use of subsidies in the form of providing a limited amount of coverage at no charge to the clients to develop trust and build an insurance culture (see Figure 19a + 19b).

37 — Left to right: Jonathan Bauchet, New York University, United States; Facilitator: Richard D. Phillips, Georgia State University, United States. Not shown in this photograph: Apurba Shee, International Livestock Research Institute, Kenya; Sachi Purcal, Macquarie University, Australia were also speakers in the session.



Parallel session 8
Academic research 1

The **marketing** intervention measured the impact on demand of two different marketing approaches, one emotional and one financial. While the study did not find a significant difference in up-take between the two messages, the averages hide important differences in the way the messages interacted with the elimination of the subsidy. When the subsidy was eliminated, sales of additional modules only increased among Compartamos borrowers who were presented with the financial poster, with variations by age group (see Figure 20a + 20b). This indicates that the timing of information delivery and ensurance that the message is tailored to the target audience is at least as important as the simple provision of information.

Pricing under the microscope

Microinsurance pricing is pivotal in achieving outreach and financial sustainability. If microinsurance institutions are not able to accurately evaluate and price risks, loadings for uncertainty have to be included in risk premiums that may well exceed the norm and sacrifice social objectives. PAKISAMA Mutual Benefit Inc., a Philippine microinsurance institution, offered a voluntary, individual microinsurance product to small farmers and rural workers. Struggling after eight years, it looked to understand the mortality experience and, based on the pricing approach, determine if the scheme was profitable.

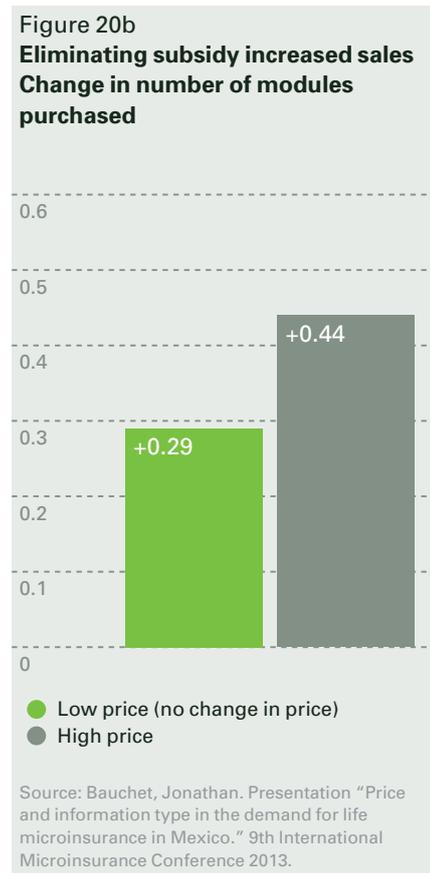
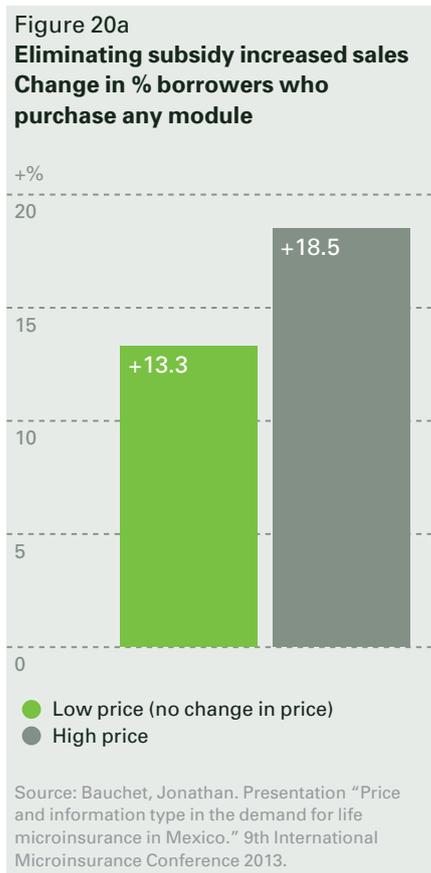
Among findings of low take-up and high lapse rates coupled with high profitability from low claims frequency, it was learnt that traditional, simple actuarial microinsurance pricing was inadequate. Instead, a simple duration-oriented pricing model based on continuous-time Markov chains that allows actuarially fair pricing using empirical transition probabilities proved to be more appropriate. This approach captures competing risks that are contingent on fundamental risk factors, covariates, and duration. The model showed that PAKISAMA Mutual had an opportunity to reduce premium over time as adverse selection challenges diminished. Given that microinsurance institutions face complex population-specific and duration-contingent risk patterns, traditional actuarial pricing may result in overpricing. Models such as the one proposed here offer an opportunity to derive more actuarially fair premiums.

A spatial econometric approach to livestock cover

Despite livestock being a key productive asset globally, accounting for 20–40% of agricultural GDP, the vulnerability of pastoralist systems to severe droughts can lead to persistent poverty.

Index insurance offers an opportunity of providing loss compensation based on a well-defined index while avoiding such issues as moral hazard. However, it faces the challenges of basis risk. In response, work is being done in Kenya and Ethiopia by the International Livestock Research Institute (ILRI) in cooperation with local insurers and global reinsurers to design index-based livestock insurance (IBLI) that reduces this basis risk.

Considering the high correlation between forage loss and livestock mortality, IBLI insures livestock mortality by compensating for area average livestock mortality predicted by remotely sensed vegetation data. Using a composite of scarce government livestock mortality data and remote sensing data over a 10-year period, ILRI developed an area-specific optimal response function that models the relationship between the vegetation data and livestock mortality (see Figure 21).



Z-indexes were used to measure deviations from “normal” for each season, and variables were constructed that allowed for pricing premiums based on both initial forage conditions and forage conditions during the season. Then, an estimation of the Mortality Index Response Function and the development of spatial panel models produced the predicted mortality index readings (see Figure 22).

This methodology facilitates the scaling up of index products in the presence of missing data and cross-sectional spatial dependence, which is particularly effective given the spatial dependence of drought impact. Information from mortality data in neighboring locations can be formally utilised for predicting mortality where there are missing observations, as well as determining the optimal degree of contract design aggregation. Not only is this approach actuarially more reliable and efficient, but it provides a natural framework for scalability in index construction and market development.

IBLI has gained popularity in pastoral areas and there is tremendous potential for expanding such insurance. ILRI is working at improving the product design to make it more effective and technically scalable to larger areas in the arid and semi-arid lands of Africa.

IBLI (Kenya and Ethiopia)

Number of people insured over 2500 households

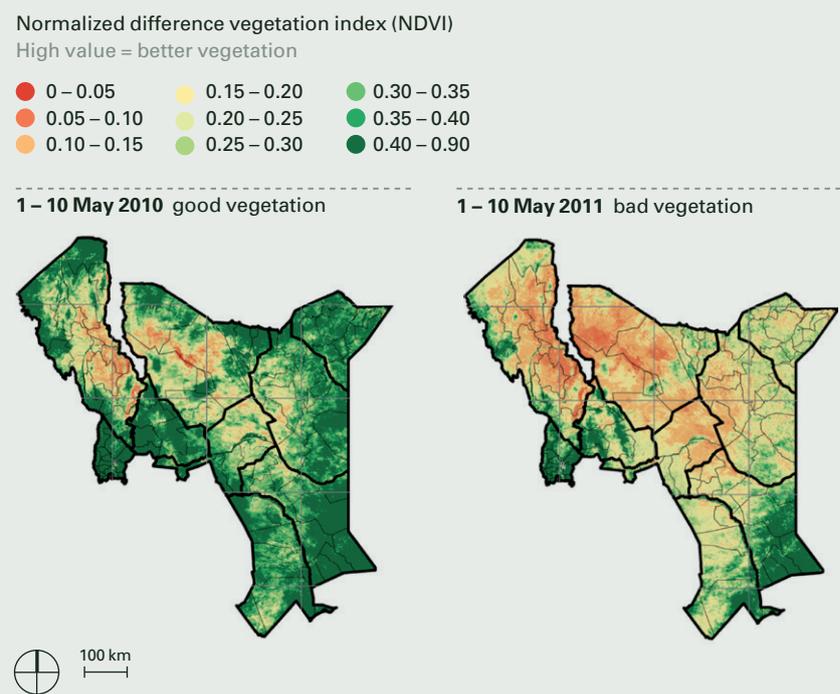
Insured risks Livestock

Premium range US\$ 100 for 6–8 animals per annum

Lessons learnt

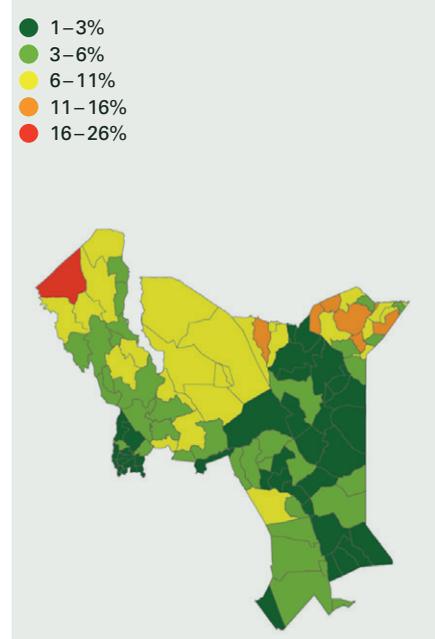
- Smart subsidies may serve to develop trust and build an insurance culture if the right product value components are evident to clients.
- The impact of marketing information depends on when it is delivered and the way in which it is adapted to the target audience.
- Pricing models that account for complex population-specific and duration-contingent risk patterns may allow for actuarially fairer pricing than the traditional actuarial pricing. New index-based livestock insurance methodologies stand to reduce basis risk and facilitate the scaling up of index products.

Figure 21
Satellite imagery solves the data challenges



Source: Shee, Apurba. Presentation “A spatial econometric approach to scalable index insurance design against drought related livestock mortality in Kenya.” 9th International Microinsurance Conference 2013.

Figure 22
SRSD (short rain short dry) rate summary at 10% trigger



Source: Shee, Apurba. Presentation “A spatial econometric approach to scalable index insurance design against drought related livestock mortality in Kenya.” 9th International Microinsurance Conference 2013.

Plenary 3

The role of microinsurance in achieving universal health coverage

Government-sponsored programmes for universal health coverage (UHC) and private-sector health microinsurance (HMI) schemes have a lot in common. This session reviewed how the two could work together toward providing coverage to sectors of population that are doing without it.

Leveraging health microinsurance to promote UHC

In collaboration with the Results for Development Institute, the **ILO/Microinsurance Innovation Facility** recently released a paper entitled “Leveraging health microinsurance to promote universal health coverage.” It explores ways in which private microinsurance and government-sponsored health plans complement each other, and how private health insurance schemes provided by communities, insurers and other institutions can assist governments to expand coverage more quickly and easily.

Privately provided microinsurance and government-sponsored plans share objectives: to provide needed benefits, improved health outcomes and financial protection (see Figure 23). Each have strengths and weaknesses that they can address by working together. While governments frequently aim to provide inclusive coverage, they typically have difficulty in reaching informal sector workers and other historically excluded groups that private microinsurance schemes serve. While microinsurers often struggle to sell affordable (and especially comprehensive) products at volumes needed for viable risk pools, governments can generate scale and use resources such as subsidies and regulations to achieve these goals. And while governments generally are set in their ways, microinsurers are nimble and more capable of innovation.

The paper’s framework envisions microinsurance initially substituting government-sponsored coverage. As reforms are implemented and the public sector builds capacity, microinsurance can then transition to offering supplementary products (such as coverage for opportunity costs) that augment government benefits. In the process, microinsurance can additionally provide information about the low-income market and determine the overall feasibility of particular product features or procedures.

Box 4

No silver bullet

There are many opportunities for leveraging HMI schemes and private actors in government initiatives, but there is no silver bullet to expand coverage. Achieving UHC takes time and resources. Countries that have significantly expanded coverage, particularly to individuals in the informal economy, have extended benefits, increased subsidies and enacted compulsory enrolment, while at the same time improving health-care infrastructure. Such policy decisions and the associated mobilisation of resources are extremely challenging for most governments. The capacity of HMI schemes also varies. As a result, their ability to perform as government partners also differs.

A critical success factor of any type of collaboration between governments and HMI schemes consists of transparent, ongoing dialogue among all stakeholders to align interests and raise awareness of each party’s strengths and weaknesses.

Source: “Leveraging health microinsurance to promote universal health coverage” Microinsurance Paper No. 23. Results for Development Institute and ILO/Microinsurance Innovation Facility. September 2013⁷

38 — Left to right:
Facilitator: Denis Garand, Denis Garand and Assoc., Canada;
Prof. Dr. Ghufon Mukti, Vice Minister, Ministry of Health, Indonesia; Caroline Phily, ILO/Microinsurance Innovation Facility, Switzerland; Hernan Luis Fuenzalida, Health Investment & Finance, United States.



In Cambodia, this “demonstration effect” underpins the government-sponsored UHC plan set to launch in 2014. Based on pilots conducted by community-based health insurers (CBHIs) in 11 garment factories, it is the government’s first foray into health coverage for Cambodians.

In some countries, including Rwanda and Ghana, governments have extended this approach further by scaling up and exerting regulatory authority over existing CBHIs – a tactic the paper calls the “foundation model.” In contrast, a “partnership model” used by India and the Philippines, among others, recognises and outsources gaps in UHC programmes to microinsurers which are better able to fill them. The outsourced tasks range from marketing, enrolment and premium collection to claims processing, provider management and even underwriting risk.

Regardless of the approach chosen, the paper says, it is important to have stakeholder buy-in, clearly defined roles and responsibilities avoiding duplication, ongoing dialogue, transparency, and flexibility.

The Indonesian example

To achieve UHC by 2019, Indonesia’s government is applying many of the framework’s principles via the roadmap illustrated in Figure 24. Over the next six years, it will expand coverage beyond the 70.82% of currently insured Indonesians by consolidating and integrating four major CBHIs with the country’s commercial insurance schemes and provincial and district programmes for low-income people.

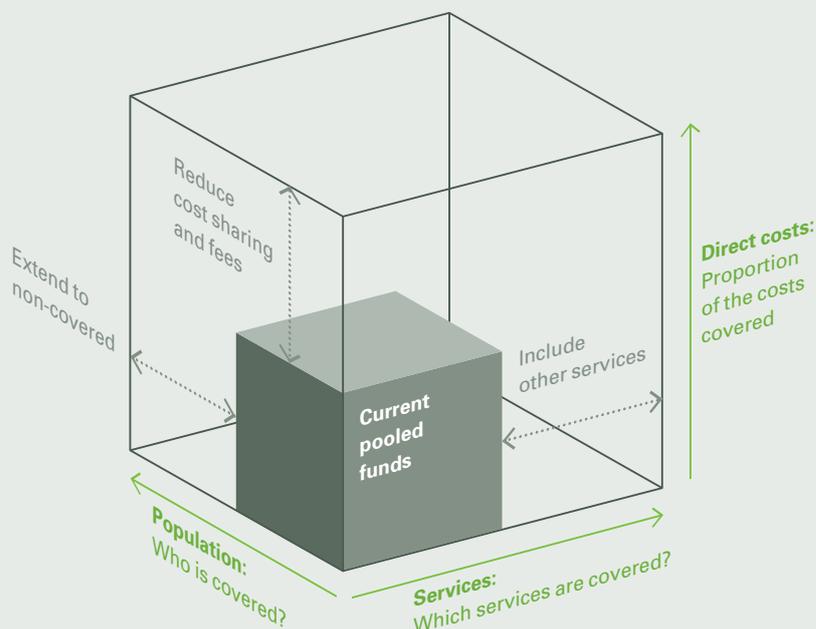
The resulting product will ultimately provide promotional, preventative, curative and rehabilitative services with both medical and non-medical components (including transportation and accommodation) in public and private sector settings. Designated “contribution beneficiaries” will have their premiums almost completely subsidised, while others pay according to government-established rates.

While various task forces – ranging from health infrastructure and financing to regulation and socialisation – prepare for the scheme’s launch, the government envisages several ongoing roles for microinsurance. These include the extension of benefits to still-excluded people, preparing customers for the transition to public provision and developing supplementary policies to complement the government’s offerings once operational.

Figure 23
UHC and HMI:
dimensions to consider

UHC
A system in which everyone can get the health care they need without financial hardship

HMI
A tool to protect low-income people against health perils in exchange for a premium



Source: Phily, Caroline. Presentation “Leveraging health micro-insurance to promote universal health coverage.” 9th International Microinsurance Conference 2013.

Plenary 3

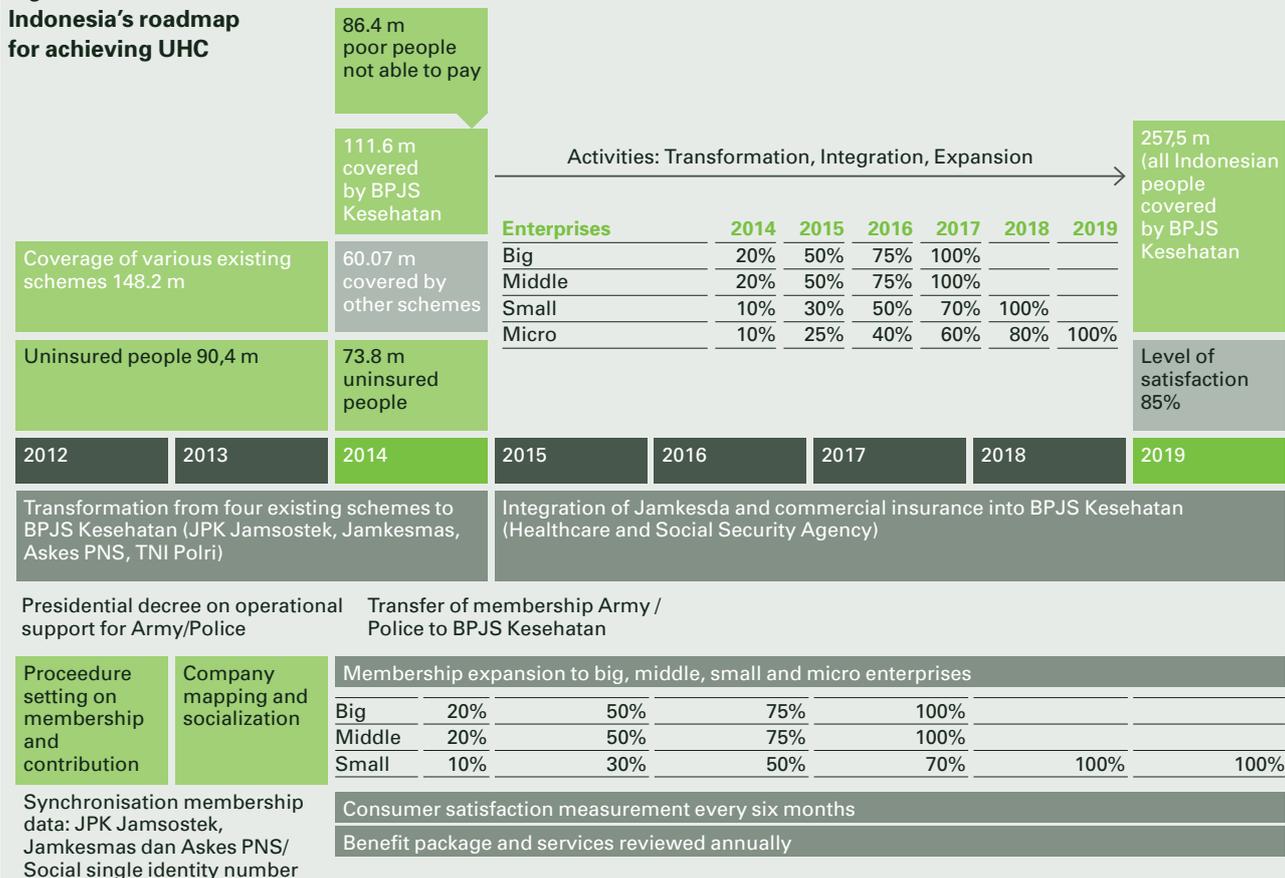
The role of microinsurance in achieving universal health coverage

The roadmap’s implementation has faced several challenges, including the difficulty of achieving consensus among stakeholders. Regarding “contribution beneficiaries,” for example, one point of contention has been the determination of individuals’ eligibility for subsidised premiums, with different players having vested political interests in setting particular thresholds. However, Indonesia remains on track to inaugurate its first UHC programme in 2019.

Lessons learnt

- Microinsurance and government-sponsored UHC schemes often have shared objectives and complementary capacities.
- Health microinsurance schemes can facilitate the design, implementation and strengthening of government programmes.
- Well-crafted plans are essential for establishing productive partnerships between microinsurers and governments.
- Solid plans are characterised by stakeholder buy-in, clearly delineated roles and responsibilities, mechanisms for maintaining dialogue and transparency and the flexibility to evolve based on changing conditions.
- A critical success factor in the partnership is to align interests and be aware of each partner’s strengths and weaknesses.

Figure 24
Indonesia’s roadmap for achieving UHC



Source: Mukti, Ali Ghufon. Presentation “The role of microinsurance in achieving universal health coverage.” 9th International Microinsurance Conference, 2013.

Agenda

Day 3 morning sessions
14 November 2013

Parallel session 9	Parallel session 10	Parallel session 11	Parallel session 12
Failures	Business Case for Microinsurance	Education	Catastrophe Risks
<p>M-Insurance: ensuring take-off whilst doing no harm</p> <p><u>Jeremy Leach</u> Director, Bankable Frontier Associates-Cenfri, South Africa</p> <p>ADB's pilot support for emerging microinsurance in Vietnam</p> <p><u>Hiroyuki Aoki</u> Senior Financial Sector Specialist, Asian Development Bank, Philippines</p> <p>The challenge of achieving global scale and replication</p> <p><u>Brandon Mathews</u> Managing Director, StoneStep, Switzerland</p> <p>Facilitator <u>Thierry van Bastelaer</u> Principal Associate, Abt Associate, United States</p>	<p>Business case for micro health insurance: examples from Kenya and India</p> <p><u>Richard Koven</u> Project Manager, Business Case, MicroInsurance Centre, United States</p> <p>How health microinsurance can achieve sustainability</p> <p><u>Michael Weiland</u> Principal & Consulting Actuary, Milliman, United States</p> <p>Business case for microinsurance: case studies update</p> <p><u>Janice Angrove</u> Lecturer, University of Witwatersrand, South Africa</p> <p>Facilitator <u>Herman Smit</u> Research Associate, Cenfri, South Africa</p>	<p>A case study of tablet technology and its application to educate consumers on health insurance in rural Tanzania</p> <p><u>John Mugo</u> Head of Operation, MicroEnsure, Tanzania</p> <p>Developing a framework for capacity building in weather index insurance based on farmer and stakeholder engagement</p> <p><u>Risaldi Boer</u> Executive director, CCROM, Bogor Agricultural University, Indonesia</p> <p>Financial literacy road show: a vehicle for stakeholder-tailored education in inclusive risk protection</p> <p><u>Antonis Malagardis</u> Programme Director, GIZ, Philippines</p> <p>Facilitator <u>Véronique Faber</u> Executive Director, Microinsurance Network, Luxembourg</p>	<p>Is there a business case for CAT microinsurance?</p> <p><u>Clémence Tatin-Jaleran</u> Actuary – MI consultant, Microinsurance Centre, Canada</p> <p>Using satellites to make index insurance scalable</p> <p><u>Daniel Osgood</u> Lead Scientist, Financial Instruments, Columbia University, United States</p> <p>Microinsurance against earthquake risk</p> <p><u>Teddy Hailamsah</u> President Director, ACA, Indonesia</p> <p>Facilitator <u>Vijaysekar Kalavakondra</u> Global Product Specialist Insurance, IFC, Indonesia</p>
Parallel session 13	Parallel session 14	Parallel session 15	Parallel session 16
Takaful	Life	Health 2	Academic research 2
<p>Landscape of microinsurance in Bangladesh and need for micro takaful insurance</p> <p><u>Kazi Mohammad Mortuza Ali</u> Managing Director, Prime Islami Life Insurance Limited, Bangladesh</p> <p>Micro-takaful – managing uncertainty together</p> <p><u>Zainal Abidin Mohd Kassim</u> Senior Partner, Actuarial Partners Consulting Sdn Bhd, Malaysia</p> <p>Case Study: micro takaful in Pakistan</p> <p><u>Capt. M. Jamil Akhtar Khan</u> Takaful Professional, Consultant, Pakistan</p> <p>Facilitator <u>Sabbir Patel</u> CFO and Vice President, ICMIF, United Kingdom</p>	<p>From rural areas to urban areas: China Life microinsurance covers the lowest income groups in China</p> <p><u>Hengxuan Su</u> Vice President, China Life, China</p> <p>The value of claim speed in microinsurance: not always what we think</p> <p><u>Barbara Magnoni</u> Project Manager, Client Value, MicroInsurance Centre, United States</p> <p>Micro saving solutions – India case study</p> <p><u>Yogesh Gupta</u> Senior Vice President, Baja Allianz Life Insurance Co. Ltd. India</p> <p>Facilitator <u>Craig Churchill</u> ILO/Microinsurance Innovation Facility, Switzerland</p>	<p>Understanding hospitalisation for fever among insured women</p> <p><u>Tara Sinha</u> Researcher, SEWA, India</p> <p>Provider-driven health plans in sub-Saharan Africa: (re-) enrolment, health care utilisation, cost effectiveness, and customer satisfaction</p> <p><u>Doriane Nzorubara</u> Senior Project Manager, PharmAccess, Kenya</p> <p>Drivers of claims in health microinsurance</p> <p><u>Jeanna Holtz</u> Chief Project Manager, ILO/ Microinsurance Innovation Facility, Switzerland</p> <p>Facilitator <u>Thomas Wiechers</u> Policy Adviser, GIZ, Germany</p>	<p>Performance trends and policy recommendations. An evaluation of the mass health insurance scheme of government of India</p> <p><u>Rupalee Ruchishmita</u> Director, CIRM Design and Research Labs, India</p> <p>Health insurance coverage for low-income household: consumption smoothing, investment and private transfers</p> <p><u>Kai Liu</u> Assistant Professor, Norwegian School of Economics, Norway</p> <p>The impact of shocks on poor households – Evidence from health financial diaries in rural Nigeria</p> <p><u>Lukasz Marc</u> PhD student, VU University Amsterdam and Tinbergen Institute, Netherlands</p> <p>Facilitator <u>Richard D. Phillips</u> C.V. Starr professor of Risk Management and Insurance, Georgia State University, United States</p>

Parallel session 9

Failures

As development interventions go, microinsurance is relatively nascent. Much remains to be learnt about how to design, implement and administer effective microinsurance products and processes under different circumstances. A reluctance to discuss what doesn't work is understandable, but failures provide important lessons and information necessary for the sector's evolution – and ultimately increased capacity to help beneficiaries manage risks. With that thought, the session began to explore three different microinsurance failures. Panellists first described what happened and how, in retrospect, they would act differently; participants then collectively parsed the lessons learned, shared other examples and contemplated failure in the microinsurance and wider economic development realms.

Regulatory roadblocks

To help a Southeast Asian nation's women's union comply with the country's 2011 Microfinance Development Strategy, a multilateral development bank implemented a two-year US\$ 250,000 technical assistance project to formalise the organisation's microinsurer. However, because the union's

separate microcredit component was formalised first through a parallel process (and was bound by central bank requirements to only transact with licensed insurers), the microinsurer was legally barred from continuing to serve the union's clients. As a result, the development bank's technical assistance was not completed on schedule.

This failure illustrates the problems that can occur in diverse microinsurance markets with different applicable rules and fragmented ministerial oversight (after formalisation, the union's microcredit supplier was subject to the central bank's guidelines, while the microinsurer remained under the jurisdiction of the Ministry of Finance).

Fortunately, the situation convinced the Ministry of Finance to expedite the draft of a national microinsurance framework and prepare interim regulations that would enable the microinsurer to resume operation alongside the union's microcredit division. In this way, one project's failure precipitated important strides for the country's entire microinsurance sector.

Additionally, this failure underscores the value of establishing national plans and development strategies that consult with, and facilitate dialogue between, multiple stakeholders across the formal and informal sectors. By encouraging communication and providing a foundation for the government's flexible and helpful response, the case illustrates how collaborative processes can formalise the provision of financial services to protect consumers.

M-insurance disappointments

Although m-insurance (or microinsurance sold through mobile phone platforms) seems promising for accessing and serving low-income consumers, its track record has been mixed. In one African country, for example, a consortium including a telecommunications provider, several insurers, a microinsurer and a cell phone services company launched a mobile life-related microinsurance product in 2011.

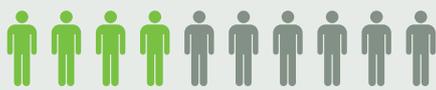
Despite encouraging initial take-up rates, sales languished however, causing internal frustration and friction among partners and delayed investment into the project's next phase. In another African country, stakeholders had similarly high hopes for a loyalty-scheme-based initiative by a mobile company, an insurer and a technical services provider. Although 1.6 million people subscribed within six months, the product was discontinued when the technical services provider cancelled its participation. Some 62% of the customers weren't notified of the change, however, causing them to develop negative attitudes about microinsurance as presented in Figure 25. These situations imparted several lessons and, as in the development bank's case, also precipitated the creation of something more valuable to the microinsurance sector.

Participating organisations learned the significance of conducting due diligence, especially with respect to highly

Figure 25
Impact⁸ of product's cancellation among uninformed policyholders



63% Ruled out use of similar products in future



42% Dissatisfied with insurance



30% Better ways to protect against future problems than insurance



Ultimately the failure potentially impedes the growth of the insurance market

Source: Leach, Jeremy. Presentation "Understanding the impact of m-insurance failures." 9th International Microinsurance Conference 2013.

8
Cited in Africa Corporate Advisors (Private) Limited, 2013, Survey of the microinsurance sector in Zimbabwe. Commissioned by FinMark Trust.

publicised but untested new products and distribution channels. This includes initially pilot-testing policies (and the relationships between participating partners) outside the spotlight and with clearly defined objectives for obtaining relevant information before launching. Consortium members realised the importance of managing problems appropriately and, in essence, the possibility (and indeed desirability) of “failing well”.

To facilitate future forays into m-insurance, two organisations have capitalised on these experiences to develop forthcoming draft principles on effectively creating and regulating m-insurance products (see Box 5). By increasing stakeholder cognisance, these guidelines will prevent similar mistakes while facilitating the development of more impactful and commercially successful m-insurance policies.

One man moving a mountain

The third case involved a person who, for various reasons (including executive resistance at one firm and internal restructuring at another), failed to establish lasting global microinsurance divisions at two major insurance companies (while nonetheless rooting the techniques and strategy at both).

As a result, he confirmed lessons well known to other innovators and “intrapreneurs.” These include the recognition of longer time horizons, identification of internal and external challenges, securing colleagues’ buy-in at all levels and the quid pro quos necessary to get things done in a large organisation.

In yet another silver lining, this individual subsequently founded his own venture development organisation which, he reported, is enjoying an excellent first year.

The session discussed different kinds of failures but several common themes emerged. Together with the teachings from each particular case, they collectively highlight the role of failure in providing instruction that facilitates the improvement of products and processes, ultimately advancing the field’s progress.

Box 5

Forthcoming draft principles for m-insurance

What do we need to do differently?

‘Slow and steady’ may sometimes be better as one tests the models, and, more importantly, the partnerships, before one scales up:

- Mpesa was a pilot for 2 years before it was scaled up
- Insurers (& MNOs) should be “impatient for profit, but patient for growth” (Christensen).

If one fails, one should fail well – regulators need to be engaged and establish rules to enable but also protect against the fallout if things go wrong.

Draft principles for m-insurance (Cenfri, forthcoming)

1. Define the m-insurance product clearly
2. Clarify the policyholder (master policy vs individual)
3. Define the nature of the legal relationship and the responsibilities pertaining to all parties (inter-regulatory coordination)
4. Clarifying incidence of premium and ensuring accountability across all m-insurance models
5. Clarifying consumer recourse options available
6. Create a living will (fail well)

Source: Leach, Jeremy. Presentation “Understanding the impact of m-insurance failures.” 9th International Microinsurance Conference 2013.

Lessons learnt

- Time and place-related factors matter. Getting the timing and the place right often, if not always, determines success. But whether one has got them right is something that dawns on people after the fact in hindsight.
- Shifting paradigms is difficult, takes time and requires the buy-in and promotion of an organisation’s established and politically-influential “champions.”
- Dialogue in the face of failure among those affected is key to salvaging the good from the bad.
- Besides imparting lessons, failures frequently provide opportunities for making beneficial and potentially even more valuable contributions.

39 — Left to right:
Facilitator: Thierry van Bastelaer, Abt Associates, United States;
Jeremy Leach, Cenfri, South Africa; Hiroyuki Aoki, Asian Development Bank, Philippines;
Brandon Mathews, StoneStep, Switzerland.



Parallel session 10

The business case for microinsurance

A strong business case is critical for microinsurance viability and the sustained interest of insurance companies. An understanding of its drivers is important for all stakeholders; the purpose of this session was to provide this understanding.

Drivers of profitability

A series of six case studies across Asia, Latin America and Africa found three primary components of profitability:

1. Achieving scale;
2. Keeping acquisition and administrative costs low;
3. Managing claims costs.

Scale is critical to the collection of sufficient premiums to cover both claims and operating costs and also to generate profit. The rapid initial growth of many schemes shows a latent demand in the market. Nevertheless, policy volumes still tend to be low compared to the potential market size (see Figure 26), indicating the promise of continued growth, even in respect to such government programmes as RSBY in India. For voluntary and compulsory products alike, a significant amount of resources is being dedicated to achieving scale.

A profitability analysis of the schemes demonstrates the strong viability of credit-life business. In the funeral and health insurance business, in contrast, higher loss ratios are seen; however, these ratios have improved as companies implement such strategies as fraud management and client segmentation to manage loss ratios. Other strategies have included setting up systems to lower management costs while increasing service or bringing in partners.

Insurers' full portfolios tend not to demonstrate this same product movement from loss-making to profit-making over time, as insurers continue to introduce new products and experiment with innovative approaches which tend initially to be less profitable.

Partnership arrangements are designed for success. But even a strong partnership requires effort to sustain high growth levels. Starting with "easy win" products such as credit life is an effective strategy for learning about the market and concurrently generating profits that allow for expansion into other markets or products. When these "easy win" products have added benefits that increase the likelihood of a payout, they ensure a positive first experience for the clients. All of this requires monitoring and making adaptations over time to move towards greater profitability.

Figure 26
Scale is critical to profitability

Achievement of Scale

Product	Covered Lives
● Credit life (CIC)	150 000
● Group funeral (OM)	500 000
● W&A Health (ICICI Lombard)	6 400 000
● RSBY Health (ICICI Lombard)	13 700 000
Microinsurance (MICO)	3 000 000
● Life cover (ASR)	190 000
● Passenger cover (ASR)	130 000
● Credit life (LP)	40 000
● WB Life cover (LP)	1 700

Policy volumes are low compared to potential market size

Growth in Gross Written Premiums



A lens on health microinsurance

Further work applying this perspective of scale, cost and claims to health microinsurance schemes in India and Bangladesh provides a number of key observations. These schemes represent a diversity of business models and yet, despite the stated need of health coverage for low-income populations, the voluntary health microinsurance schemes studied have a very low take-up rate, even when premiums are remarkably low because of subsidies. Here, attitudes that “God will provide” sometimes keep people from purchasing coverage.

Notably **HDFC⁹-ERGO** in India has experienced success in increasing rural penetration rates of the Arogya Raksha Yojana (ARY) health microinsurance scheme. It has achieved this by partnering with the Biocon Foundation to market and enrol villagers in the scheme during the Foundation’s education and preventive healthcare camps. While the strategy of tying insurance premiums to a microfinance loan, as practiced by SAJIDA Foundation in Bangladesh, may support scale, it also limits the provider’s ability to price appropriately and ties insurance growth directly to microfinance growth.

To control loss ratios, most schemes have some sort of relationship with the healthcare service providers which drives down costs. Additionally, as schemes track emerging experiences, at times they have modified benefits (e.g., longer elimination periods, different maternity cover, limits on key benefits) to lower future loss ratios.

Of note is that the expense ratio and not the loss ratio has proven to be the primary driver of losses. To control expense ratios, investments in enrolment technology and cashless claims settlements have been used in some cases.

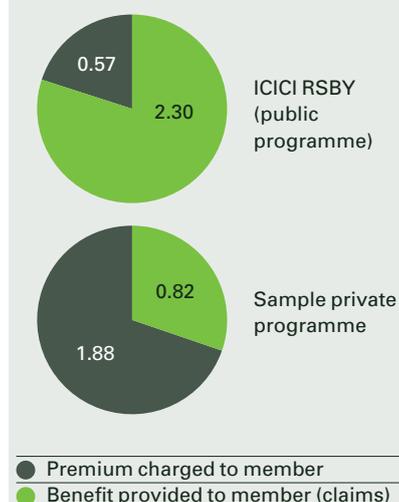
In general, the micro health insurance schemes run the spectrum of sustainability. While certain schemes are unprofitable, these tend to be linked to commercial ventures that subsidise their losses. Others, such as RSBY, have been profitable but have an explicit subsidy. The schemes that are profitable also have an implicit subsidy, such as that of HDFC-ERGO and the Biocon Foundation.

A focus on health microinsurance in the Indian and Kenyan contexts

India has the highest concentration of health microinsurance programmes, and yet no programmes are known to have achieved break-even without government intervention. Voluntary, private models struggle with scale which leads to high expenses. In the **ICICI** public RSBY scheme, for example, the member invests approximately US\$ 0.50 and receives US\$ 2.30 in benefits each year. In contrast, a member of a private programme invests US\$ 1.88 and receives only US\$ 0.82 in benefits each year. Additionally, as a result of bidding, public programmes spend one third more on administration, further enhancing their ability to offer an attractive package of benefits.

When these two types of programmes operate in a single market, public programmes will be preferable for individuals, making it challenging for private programmes to achieve scale (see Figure 27).

Figure 27
Private HMI’s find it difficult to offer attractive products at affordable prices without subsidy
 Cost vs. Benefit per Member per Year (US\$)



Source: Richard Koven. Presentation “Business Case for Health Microinsurance: Examples from Kenya and India.” 9th International Microinsurance Conference 2013.

Parallel session 10

The business case for microinsurance

Where the support of a government subsidy drives scale, scale and competition in turn drive down costs, though this in and of itself does not guarantee a business case. In fact, the programme's age appears to have little correlation with the ability to scale or move toward financial sustainability; achieving scale is in part a function of uptake which requires a design that balances low premiums and attractive coverage.

In Kenya, there has been a lot of insurer activity over the last ten years but limited enrolment. Despite over 1.1 million MFI members and 1.37 million active microinsurance policies, there are only 30,000 health policies, and the majority of these are through the public National Hospital Insurance Fund. In fact, rather than Kenyan insurers moving down-market, they are pricing themselves further up-market.

In Kenya then, despite commissions and expenses being relatively contained, health microinsurance is not profitable as of yet. Losses are somewhat offset by bundling with life and funeral cover; however, opportunities for offering out-patient coverage as a complement to the public programme are missing.

In these two country examples, it becomes evident that there are critical geographical differences, but also that private, individual and voluntary health microinsurance programmes tend not to lead to significant and sustained participation, especially when targeting relatively small populations. Without scale and without subsidy, administrative costs in these countries are too high to support attractive coverage at affordable premiums, creating a vicious cycle.

Here, community-based programmes are more likely to succeed. With a community presence, high uptake rates are more feasible to achieve, and resources may be shared through a central hub charged with risk pooling, claims processing and administrative activities.

By entering into public-private partnerships, cross-subsidising, monitoring and adapting to reduce administrative and claims costs, start-up costs can be overcome and profitability is more attainable. One must not forget, however, that realities are not only different in different markets but also in each of the different insurance lines, and thus too the drivers for the individual business case.

Lessons learnt

- The three primary components of profitability are: achieving scale, keeping acquisition and administrative costs low, and managing claims costs.
- The expense ratio is the primary driver of losses.
- Movement is seen over time from loss-making to profit-making in individual products as an insurer monitors and adjusts the scheme.
- A programme's age has little correlation with its ability to scale.
- When public and private programmes compete in a single market, public programmes will be preferable for individuals, making it challenging for private programmes to achieve scale.

40 — Left to right:
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Africa



Parallel session 11

Education

This session presented three cases of raising microinsurance awareness among various stakeholders. A case in Tanzania involved the application of tablet technology to educate consumers on health insurance in a rural area. In the Philippines, a public-private partnership is implementing a “Roadmap to Financial Literacy” targeting nine stakeholder groups. And in Indonesia, a project has developed a framework for capacity building in weather index insurance based on farmer and stakeholder engagement.

Tablet technology increases credibility

The educational drive in **Tanzania** using tablet technology targeted coffee farmers on the slopes of Mount Kilimanjaro. They belong to the Kilimanjaro Native Cooperative Union (KNCU). Three years ago, the union partnered with PharmAccess (the Netherlands) and MicroEnsure (UK) to introduce a health plan for its members. A pilot phase in 2011–12 led to rollout in the middle of 2012, and the plan now covers more than 17,000 individuals.

Most rural communities are semi-literate at best, and have little knowledge of, or confidence in, insurance. Their main source of information is the union’s sales clerks whose verbal messages have not always been consistent. There was a need to communicate with the union members in a simple way. The partners therefore decided to use tablet technology for the following reasons:

- Simple and intuitive interface,
- Ability to present information in a consistent and accessible manner,
- Opportunity of mixing media (e.g., audio, video, photo, animations, cartoons),
- Ability to demonstrate programme credibility,
- Ability to constantly educate the new sales clerks about the programme,
- Ability to control message delivery.

The communication content was designed and scripted by the partners. A multi-media agency in Dar es Salaam then developed its application. The content was tested in one community, tablets were distributed among sales clerks across different primary societies, and ultimately a field test was conducted to examine the effect of tablet on sales. It was found that people were more interested in listening and interacting with the information thus provided. For farmers, the tablet provided the following “E”s:

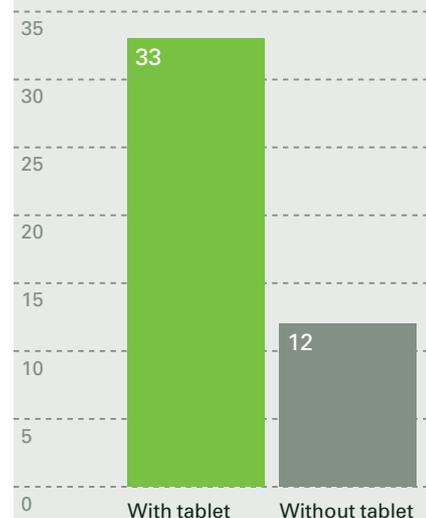
- Experience
- Endorsement
- Evidence

The tablet can run a short film or story showing what could happen in a family when health problems arise. The tablet was also endorsed by a local leader. It made the health plan credible, since all the information was provided in one place. Test results showed that sales with the tablet were almost three times higher (see Figure 28) than usual. Although the production costs of the educational drive were high, the use of the tablet is seen as a long-term investment in financial literacy and advocacy.

Lessons learnt

- Technology has a big role to play in packaging and disseminating information for complex subjects such as insurance.
- Semi-literate consumers relate better with audio and visuals than with bare explanations or printed text. Print materials do not provide the requisite interaction.
- Low-income earners are very comparative in nature; unless they can see the hard evidence and can compare it with their current situation, they will ignore it rather than learn more about it.
- The information provided on the tablet increased programme credibility.
- The tablet quickly built up knowledge on the KNCU Health Plan among sales clerks, helping them to be more confident.
- The results of the field test suggest a positive effect of the tablet on sales.

Figure 28
Average sales (households)
per clerk



Source: Richard Koven. Presentation “Business Case for Health Microinsurance: Examples from Kenya and India.” 9th International Microinsurance Conference 2013.

41 — John Mugo, MicroEnsure, United Republic of Tanzania.



Parallel session 11
Education

High impact of national awareness programmes

“Financial literacy is educating, not marketing; advocacy is convincing, not selling.”

In the **Philippines**, a national awareness programme is aimed at nine larger stakeholder groups involved in microinsurance provision and use: legislators, regulators, national government, local government, insurance providers, intermediaries, support institutions, donors and development agencies, and clients.

The cornerstone of the programme is two-fold: financial literacy is educating, not marketing; advocacy is convincing, not selling. Called the “Roadmap”, it is a public-private collaboration designed to build the capacities of the nine stakeholders to become proactive in the provision and promotion of microinsurance. Its implementation consists of three steps: the development of modules and tools; training master trainers from different stakeholders; the organisation of financial literacy road shows nationwide.

Each road show takes four days and involves the following: advocate training; a public seminar; exhibits from microinsurance providers and intermediaries; press conferences. Advocacy messages are specifically targeted at different stakeholders (see Figure 29 for messages addressing government agencies and insurance providers).

Several institutional steps are applied to improve the provision of microinsurance. One example is the integration of the microinsurance topic into the pre-departure orientation seminar which is mandatory for Filipino workers departing for overseas. Another example is the local government units that pass city ordinances providing additional insurance coverage to temporary employees such as street sweepers, village peace-keepers and health workers.

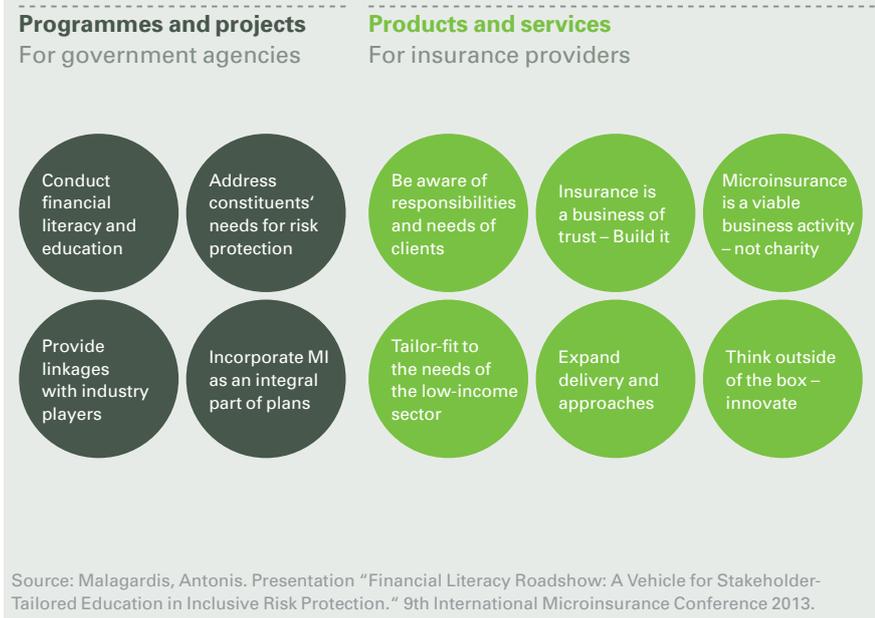
Lessons learnt

- A unified perspective towards insuring the low-income sector is required to shorten the gap between the public and private sectors.
- A stakeholder-tailored approach supports financial inclusion in design and content delivery, educating each distinct stakeholder group on their roles and opportunities in promoting microinsurance.
- A Financial Literacy Road Show is an evolving strategy, whereby each road show is an opportunity for discovering lessons for quality management of all those involved.
- Such an initiative can be replicated by any country in line with its policy and regulatory environment and current or planned activities on microinsurance education.

42 — Left to right: Véronique Faber, Microinsurance Network, Luxembourg; Antonis Malagardis, GIZ, Philippines; Rizaldi Boer, Center for Climate Risk and Opportunity Management in Southeast Asia and Pacific (CCROM), Bogor Agriculture University, Indonesia.



Figure 29
Microinsurance advocacy messages to stakeholder



Engaging farmers and stakeholders to help index insurance take hold

Climate plays a key role in the socio-economic activities of agriculture. Uncertainty in agricultural production is closely related with weather variability, in particular with a sharp drop in rainfall which causes severe losses. Climate change has now increased this uncertainty and risk, with farmers no longer sure about which crops to select, when to start planting, and when to expect the harvest.

For farmers, climate change means more bad years and worse bad years. They have to adapt by increasing productivity in normal years to cover bad-year losses. But even in a good year, with a high risk of default and no financial protection, they forgo another purchase of fertiliser on credit that would ensure a good harvest. The threat of one bad year out of five can prevent the other four from being much more productive. Key for insurance, therefore, is to reduce risk to unlock the potential of the credit markets to help farmers increase productivity in good years.

Index-based insurance, insuring a weather/climate index and not crops, addresses problems with traditional insurance and can protect impoverished farm households against climate shocks (see Figure 30).

Index-based insurance has been tested in several countries and contexts, but its acceptance among farmers continues to be below expectations. Now, a project at Bogor Agriculture University in Indonesia suggests a way in which supporters, promoters and users alike can help index-based insurance take hold in agricultural communities. The project is a special collaboration between the International Research Institute (IRI) for Climate and Society and the new Centre for Climate Risk and Opportunity Management (CCROM), and calls for capacity building by engaging farmers and stakeholders in index-based insurance.

Capacity building needs to focus on both

- the ability of insurance to reduce risk, *and*
- the means for insurance to serve as a vehicle to unlock productivity.

The project argues that index design and capacity building require participatory processes. Farmers, local experts, extension services, scientists and government must connect and interact in several stages of design and education.

IRI and CCROM are pursuing a three-part strategy for Indonesia:

- Knowledge development for extension workers and government, to build understanding of the index insurance concept;
- Interactive exercises, to engage farmers and communities in index design;
- Instructional games, to illustrate key concepts and obtain local feedback.

Lessons learnt

- Local partners and agricultural extension agents should be involved in the design of local educational material so that farmer workshops can be targeted to address specific local climate risk management needs.
- Capacity-building material for weather index insurance should be interactive and built on local contexts in discussion with local experts on climate risk management whenever possible.
- Target market participants (i.e. farmers) should be engaged early in the process of local index insurance capacity building efforts to gain feedback on their needs, constraints and preferences for climate risk management.
- When undertaking capacity building for index insurance at the farmer level, exercises that demonstrate not only how the index insurance contract works, but also how it relates to the needs and constraints that the community faces, will work best to gain farmer attention and engagement.
- Feedback from all educational workshop/training participants should be solicited at the conclusion of every session and used to better target future workshops to local issues and contexts.

Figure 30
Rainfall index insurance
Why Index Insurance?

Problems with traditional insurance have made it tough to implement		1
— High transaction cost – high premium price		2
		3
		4
Recent innovation – Index Insurance		5
— Insures a weather/climate index not crop, e.g. provides payout if there is drought		6
		7
		8
— Cheap, “easy” to implement, good incentives		9
		10
	Trigger	11
Simple Drought Index Insurance Design		12
1. Partial Payout if rainfall below “Trigger”	Exit	13
		14
2. Full Payout if rainfall is below “Exit”		15

Source: Boer, Rizaldi. Presentation “Developing A Framework for Capacity Building in Weather Index Insurance Based on Farmer and Stakeholder Engagement: Indonesian Case.” 9th International Microinsurance Conference 2013.

Parallel session 12

Catastrophe risks

An average of 69 natural disasters hits the Asia-Pacific region each year. With 60% of economic wealth exposed to disaster risk, the impact on the economy is significant. Even if not all of the disasters are as severe as the Indian Ocean Tsunami in 2004, the Sichuan Earthquake in 2008 or Typhoon Haiyan, which hit the Philippines in 2013, the impact, especially on poor households, is enormous. Insurance penetration in this region is still low so that the insured losses from the Sichuan earthquake amounted to only US\$ 388 million whereas total losses were more than US\$ 100 billion.

This session focused on how catastrophe risk insurance can be implemented effectively and whether there is a business case.

Earthquake fund for Indonesia

Recent earthquakes in Aceh Gayo, located at the northern tip of Sumatra, damaged 18,207 houses (see Figure 31). Historically, the middle-income (and higher) class has shown that it can shoulder recovery costs and rebuild using savings or conventional insurance. However, the lower-income segment of the population, with insufficient savings, is dependent on help from the government, international and non-governmental organisations, and relatives and friends.

**ACA Asuransi:
Dana Gempa, Indonesia**

Insured risk
Property after earthquake

Premium
US\$ 2 per voucher which offers a payout of US\$ 200; max. five vouchers per building

Number of people insured
n/a

In response to this need, **ACA Asuransi**, an Indonesian insurance company, launched Dana Gempa, a product insuring buildings against damage caused by earthquakes, regardless of the level of damage and magnitude of the earthquake. To avoid basis risk, Dana Gempa was set up as an emergency fund. The client buys insurance vouchers for US\$ 2 each, either electronically or as a scratch card, and activates the insurance via a text message. Any building anywhere in Indonesia can be covered by up to five vouchers, each paying US\$ 200 in case the building is damaged by earthquake. Claims can be reported via text message or via the local news – the insurance accepts media coverage as a claims report. To release the emergency payments as quickly as possible, the only document required when collecting the payment is an ID card or a notice from the local subdivision that the victim is the owner of the damaged building.

The vouchers for Dana Gempa are available in branch offices and more than 9,000 retail and convenience stores across Indonesia. The client receives a text message invitation to renew the voucher before expiry.

Using satellites to make index-insurance scalable

To meet the value proposition of insurance, the client needs to receive accurate payouts. The fast take-up of index insurance shows the demand for insurance on one side but also puts pressure on the on-the-ground network for timely verification as part of the claims management process. Obtaining adequate rainfall and crop data is a key element in verifying the triggers for index insurance and reducing basis risk. The holistic adaptation risk-management approach of the Horn of Africa Risk Transfer for Adaptation (**HARITA**) project in Ethiopia tests satellite data to help the team on the ground provide quality products on larger scales.

Satellite estimates of rainfall (under a cloud) are simply based on the temperature measured on the top of the cloud. The satellite view of vegetation is probably not just an image of the crop but also a mix of dirt, rock shadow, trees, grasses and crops. This view is used to proxy response of the landscape to rainfall; for example, “Did the landscape turn ‘brown’ one month after the end of the season?”

Since satellites follow a scientific method, potential errors can cause problems. To validate the satellite data, the use of different technologies and field visits should be combined.



43



44

43 — Teddy Hailamsah,
ACA, Indonesia.

44 — Left to right:
Facilitator: Vijaysekar
Kalavakonda, IFC, Indonesia;
Clémence Tatin-Jaleran,
MicroInsurance Centre, Canada;
Daniel Osgood, Columbia
University, United States.

So far, the project has shown an 80% to 90% correlation of the satellite data with the situation on the ground. Vegetation indexes supported the validation of hazards that are most widespread. The images become more accurate towards the end of the season when foliage is dense. In addition, infrequent high-resolution images can validate more frequent low-resolution images. As a result, satellite imagery of vegetation improves the coverage quality and lowers the cost of validating index insurance products.

Business case for catastrophe microinsurance

Disaster relief and reconstruction efforts after catastrophic events are mostly financed by governments since catastrophe insurance penetration is low. Over the past decade, a series of catastrophe microinsurance products have emerged. Private players have entered this traditionally government and donor-driven sector to offer ex-ante risk transfer solutions. As part of the MILK¹⁰ business case series, seven catastrophe microinsurance schemes were examined and tested for their business case from the risk carrier's perspective. Preliminary findings point to the potential for a business case for catastrophe microinsurance which has yet to be realised. There has been no clear evidence yet for a business case without public-sector support.

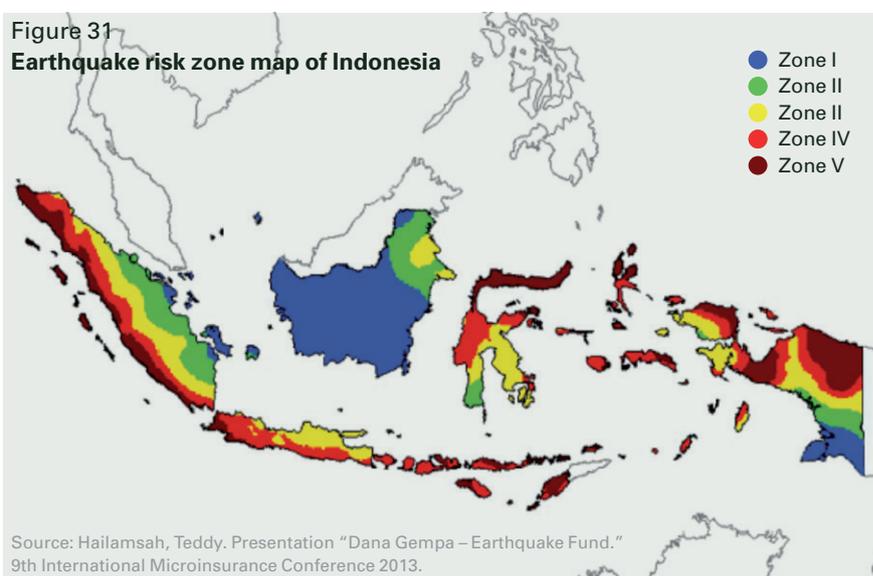
Studies of existing catastrophe insurance schemes in industrialised countries show that voluntary purchase of property catastrophe coverage is often low, even among wealthy households. In some countries, households are required by law to purchase catastrophe coverage, or compulsion can be indirect when banks require coverage as a precondition for lending. To go beyond mandatory sales, the products need to be affordable, which in many cases calls for cross-subsidies.

Many countries have significant levels of government intervention in the market, ranging from subsidies to primary underwriting or reinsuring. The take-up rates, even across industrialised countries, therefore vary significantly, depending on the level of compulsion and enforcement, as well as the nature of government intervention.

Lessons learnt

- In times of catastrophe, people are in urgent need of cash. Catastrophe microinsurance products should have a very easy and fast claims management process.
- Satellite imagery is a reliable scientific instrument for improving coverage quality and controlling validation cost. It could quickly scale up index insurance products, but should be cross-checked with data from on-the-ground sources.
- There is a tremendous opportunity for bringing government and insurance companies together and creating suitable risk-transfer solutions via public-private partnerships. Unless the private sector gets involved, the liability will stay with government. Therefore, both sides should find ways of creating a shared agenda and working together effectively.

Figure 31
Earthquake risk zone map of Indonesia



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Microinsurance Learning and Knowledge (MILK) is a project to assess its value and business case.

Parallel session 13

Takaful

This session delved into practitioners' experiences in takaful or sharia-compliant insurance in Malaysia, Pakistan and Bangladesh. Presenters described the takaful landscapes in their countries, the goals they have achieved, the challenges that remain and how best to proceed with expansion of the sector.

What is takaful?

Although the concept and practice of takaful varies widely among countries, several common tenets differentiate it from traditional insurance. In 1985, for example, the Fiqh Academy of Mecca defined halal (or permissible) insurance as inherently cooperative (involving the sharing instead of the transfer of risks), with benefit pools charitably constituted on the basis of donations. Takaful providers' offerings and related investment income must additionally avoid paying or receiving *riba* (interest), *gharar* (contractual uncertainty) and *maysir* (gambling); surpluses are further returned to policyholders and their communities. From the Muslim perspective, takaful is therefore primarily about building solidarity while managing risks, and not a business for making money.

Malaysia: equity for policyholders

Although Malaysia's takaful market is highly developed and well-regulated, microtakaful isn't yet prevalent there. Additionally, since even the smallest annual premiums are comparably expensive at about US\$ 76, practitioners talk about mini-takaful (instead of microtakaful) in the Malaysian context.

To expand and improve the number of takaful products available to low-income people, practitioners have identified several issues that merit focus. These include the proprietary structures of Malaysian insurers (including the country's eleven takaful providers), which currently prioritise the maximisation of shareholder profits over serving lower-income clients.

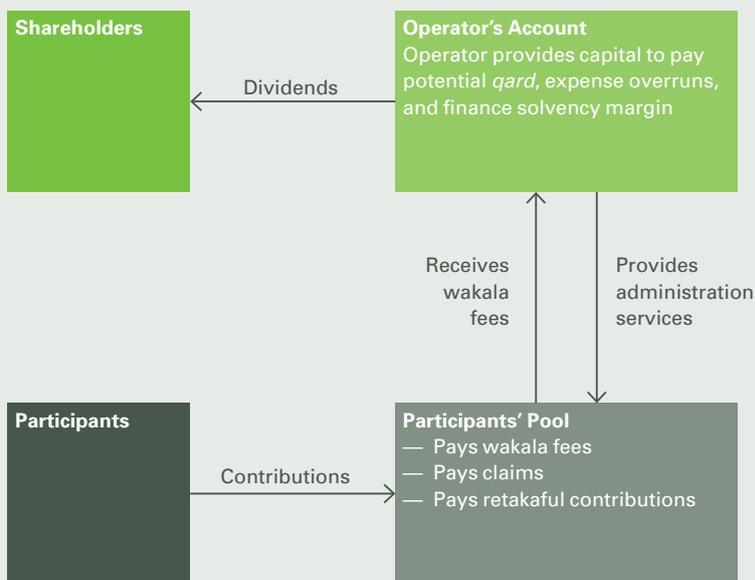
To address this problem, stakeholders, including the country's Actuarial Partners consultancy, are advocating new financing approaches that eliminate the shareholder role. Specifically, they propose using *waqf* (or the Muslim practice of endowing religious or charitable endeavours) to fund takaful setups managed by trustees and meet costs such as government-established reserve requirements. Policyholders would then continue to contribute to the cooperative risk pools from which benefits are paid, as illustrated in Figures 32 and 33.

Likewise, reformers also suggest using *zakah* (or compulsory annual tithes paid by financially better-off Muslims) to subsidise poor participants' premiums. With these changes, stakeholders hope that more low-income Malaysians (including non-Muslims) will be able to access and benefit from effective mini- and microtakaful products.

45 — Left to right:
Kazi Mohammad Mortuza Ali,
Prime Islami Life Insurance
Limited, Bangladesh; Capt. M.
Jamil Akhtar Khan, Consultant,
Pakistan; Zainal Abidin Mohd
Kassim, Actuarial Partners
Consulting Sdn Bhd, Malaysia;
Facilitator: Sabbir Patel, ICMIF,
United Kingdom.

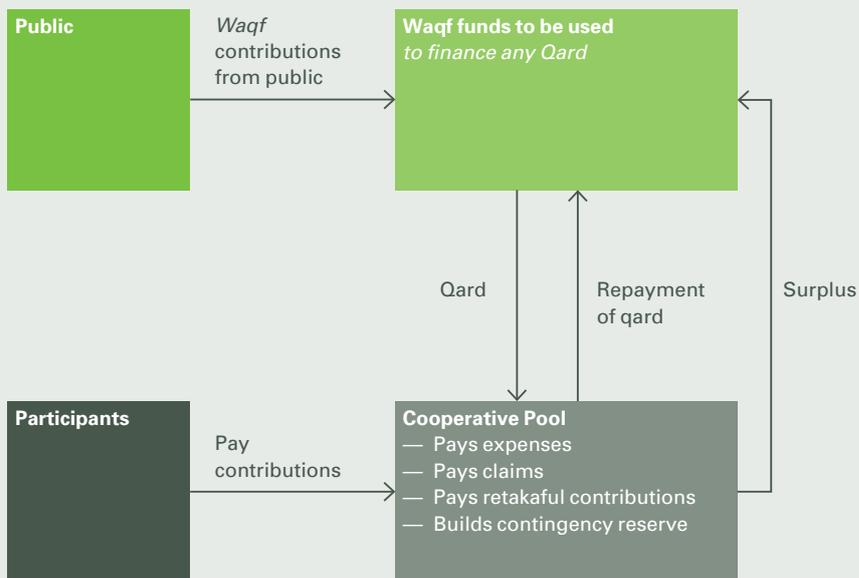


Figure 32
Existing Malaysian Takaful model



Source: Kassim, Zainal Abidin Mohd. Presentation "Microtakaful: The search for a fair deal for participants." 9th International Microinsurance Conference 2013.

Figure 33
Proposed Malaysian Takaful Model



Source: Kassim, Zainal Abidin Mohd. Presentation "Microtakaful: The search for a fair deal for participants." 9th International Microinsurance Conference 2013.

Parallel session 13
Takaful

Pakistan: significant opportunity

Pakistan's 180 million people have the lowest rate of insurance penetration as a percentage of GDP in Southern Asia. There is widespread poverty and low financial literacy in a predominantly rural (and difficult to serve) population. Takaful products previously only provided corporate (as opposed to individual) coverage and raised sharia compliance issues. The 2010 flash floods taught many at first hand about the importance of insurance, and the potential for mini- and microtakaful has grown significantly. As a result, Pakistan's Islamic banking sector is now more firmly established.

Currently available products – delivered through MFIs, rural support and development cooperatives, other NGOs and even informal groups created after the flood – insure the range of risks presented in Figure 34. In addition, there is a takaful health microinsurance plan (see profile box below).

Sungi Development Foundation Takaful Health Plan for Northern Rural Families (Pakistan)

Number insured
7,000 families

Covered risks
Health

Premium range
PKR 350 (US\$ 3.23) for individuals and PKR 1,250 (US\$ 11.55) for families annually

Lessons learnt in this growing market include:

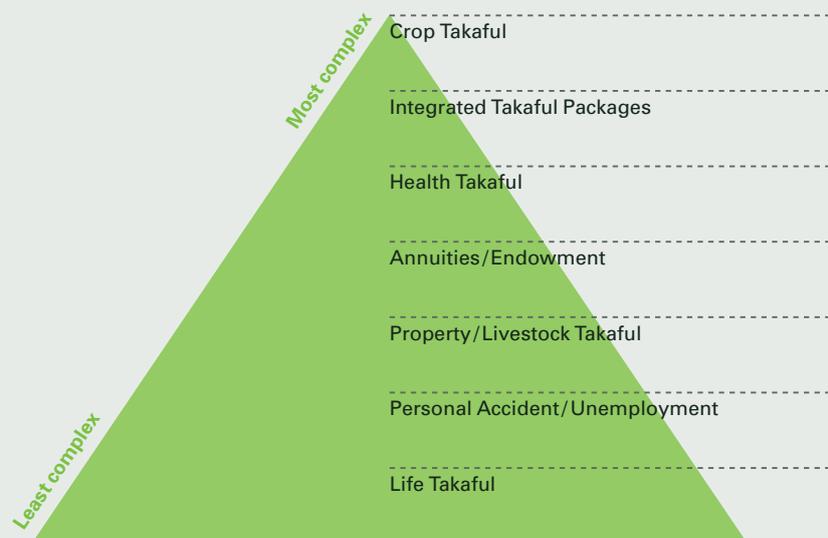
- The importance of careful consideration of local needs (such as affordability and accessibility),
- Product sustainability (loss ratios increase as policyholders become more cognisant of benefits and claims procedures over time),
- The difficulty of surmounting bureaucratic hurdles.

Going forward, takaful stakeholders suggest a number of potential improvements including:

- Reduced capital requirements,
- Government tax incentives for mini- and microtakaful providers,
- Awareness-building campaigns,
- Formation of strategic alliances,
- Development of new distribution channels.

With a 97% Muslim population, Pakistan has millions of people who have shunned mainstream financial services for religious reasons but would react well to a sharia-compliant concept. The future of mini- and microtakaful in this country looks good.

Figure 34
Range of Mini-Takaful products available in Pakistan
Relative complexities



Source: Khan, Akhtar. Presentation "Case study: Micro-takaful in Pakistan." 9th International Microinsurance Conference 2013.

Bangladesh: the PILIL story

Forty per cent of Bangladesh's densely packed 150 million people live below the poverty line, often in disaster-prone areas of the country's low-lying delta. Although 46 non-life (including three takaful) and 27 life (including five takaful) insurers offer a wide range of products there, insurance penetration remains low at about 1% of GDP.

The experience of Prime Islami Life Insurance Limited (PILIL), which began operations in 2001, illustrates how a takaful provider can successfully launch microtakaful products in this market. Operating under the *mudaraba* model (through which investor capital is deployed by "working partners" under contractually set conditions), PILIL currently offers three microtakaful savings vehicles:

PILIL (Bangladesh) – Deposit Pension Scheme

Number insured
30,338 policyholders

Covered risks
Regular and accidental death benefits in the 10–15 year retirement savings/pension scheme

Premium range
BDT 200 (US\$ 2.56) – BDT 1,000 (US\$ 12.78) per month

PILIL–Kalyan Bima

Number insured
71,792 policyholders

Covered risks
Death benefits in the variable term retirement savings/pension scheme

Premium range
BDT 200 (US\$ 2.56) – BDT 10,000 (US\$ 127.77) per month

PILIL – Small Savings Assurance Plan

Number insured
28,533 policyholders (as of 31 December 2012)

Covered risks
This 10- or 15-year savings vehicle provides death benefits.

Premium range
Amounts of up to BDT 200,000 (US\$ 2,555.36) are assured, paid in monthly, quarterly, semi-annual or annual instalments.

In developing, promoting, selling and servicing these products, PILIL has encountered a number of challenges:

- The need to educate customers, insurance professionals and Islamic scholars about takaful products,
- The permissibility of life insurance under sharia law,
- Overcoming the Bangladeshis' negative image of insurance,
- The dearth of support services (such as marketing firms),
- Capriciously priced products from unregulated competitors,
- Traditional distribution systems that do not effectively reach low-income clients.

Going forward, PILIL and other stakeholders are contemplating two specific steps that could be of help to a growing number of low-income people: reduction of distribution costs (for example, by collecting premiums through mobile technology) and cultivation of trust in the market (by reliably paying claims and supporting the extension of regulatory oversight).

Lessons learnt

- The concept and practice of takaful varies significantly across countries.
- Because of cost concerns, providers in places such as Malaysia offer mini-takaful instead of micro-takaful.
- For practitioners, regulatory issues are particularly pressing. Of specific concern are the questions of whether takaful products should be regulated separately, whether existing companies can offer sharia-compliant products through "takaful windows" into their businesses, and whether capital requirements can be relaxed.
- Product affordability, accessibility and sustainability are demanding increasing attention.

Parallel session 14

Life

Life insurance is the most popular and most widely distributed microinsurance products. This session presented three successful case studies of life products from India, China and the Philippines.

Microinsurance turning into a macro business

In India, only 5% of the population is covered by an insurance policy, leaving 800 million people, mainly in rural areas, without protection. Insurance companies are realising this untapped market opportunity and are developing inclusive products for rural and low-income customers.

Bajaj Allianz offers a microinsurance savings product tailored to rural needs. As the key elements of its "Sarve Shakti Suraksha" plan, Bajaj Allianz sets minimal documentation requirements for enrolment and claims.

Sarve Shakti Suraksha includes a customised group-based life insurance cover that pays a fixed amount on death due to natural or accidental causes and a savings component that provides a guaranteed maturity benefit and low surrender penalties. The policy is simple and offers payment options from monthly to annual basis. The five-year endowment plan charges a monthly premium of US\$ 0.73 or US\$ 8 per year for a minimum policy value of US\$ 40. The most important features of the product are guaranteed insurance benefits, investment returns on the accumulated savings and withdrawal flexibility.

Bajaj Allianz: Sarve Shakti Suraksha, India

Number of people insured
3,000,000+

Insured risks
Death due to natural or accidental causes

Premium range
US\$ 0.73 per month or
US\$ 8 per year

To access the rural market, Bajaj Allianz partnered with rural banks, microfinance institutions, business correspondence and dairy federations, among others. More than three million lives across India have been covered within two years after launching, and Bajaj Allianz has gained 50% of the market share. To remain a leader in microinsurance in India, the company launched several special initiatives. These initiatives include sending handwritten postcards and public announcements in local languages reminding clients about policy renewal, as well as role plays, movies, jingles and games for educational purposes.

Modified versions of this product are now being developed by Allianz in other regions, such as Indonesia and parts of South America and West Africa, to suit the distinct requirements of customers there.

Microinsurance as safety net and business opportunity

China Life launched its initial microinsurance pilot programme in rural areas in 2008, and added the urban market after a change in regulations. Today, it is present in 36 provinces nationwide. The company offers 22 microinsurance products, covering personal accident, illness and term life with a special focus on tailoring the products to specific needs. It addresses the rural-urban differences in product design. Since traffic management in rural areas is less strict than in cities, rural products do not require the driver to hold a valid driver's and vehicle licence. Furthermore, the supplementary accident medical care portfolio is a mainstream product which was adapted to rural low-income groups by reducing exclusions, simplifying payment processes and targeting breakeven pricing. With these adjustments, the product could be offered with a 20% discount from the standard premium rate.

Since the launch of the microinsurance pilot in 2008, China Life has provided coverage to nearly 120 million low-income people. The proportion of China's rural population benefitting from microinsurance has risen from 0.35% to 7.56% in 2008. China Life has become the main force of microinsurance development in China with an 80% market share.

China Life: supplementary rural accident medical care microinsurance

Number of people insured
14,400,000

Insured risks
Accident medical care

Premium
US\$ 1.64

The company has created significant value for low-income groups and even for the government: a large number of low-income groups with access to insurance coverage reduces the government's burden and strain. Social security systems are not perfect, and low-income people, dealing with the consequences of risky ventures, often end up in conflicts and disputes with the system. Microinsurance, by compensating them in the event of a loss or injury, reduces these conflicts and disputes and helps maintain social stability and harmony.

The value of claims speed in microinsurance

As part of the MILK¹¹ client value series, the speed of claim processing for two micro life insurance products in the Philippines was evaluated.

Funerals in the Philippines involve ceremonies over several days, where family and community come together to honour the deceased. The costs quickly add up and often leave families with a substantial financial burden. So life insurance products are popular even on a voluntary basis. The two life insurance products studied, one offered by **MicroEnsure** and the other by **CARD MBA**, are almost identical.

Both offer life and accident coverage (US\$ 1,069 and US\$ 723-1,220) for an annual premium (US\$ 20 and US\$ 18). A key differentiator of the products is the speed of claims payments. While CARD MBA provides a one-time payment to cover funeral benefits of US\$ 723 within eight days, MicroEnsure tranches the payments. The first payment to cover funeral benefits of US\$ 324 is transferred after 26 days and the second payment of US\$ 745 for life benefits is disbursed after 82 days.

The Philippines

CARD MBA: Life insurance

Insured risk
Life and accidental death

Premium
US\$ 18 per year

Number of people insured
n/a

MicroEnsure: Life insurance

Insured risk
Life and personal accident

Premium
US\$ 20

Number of people insured
n/a



46

46 — Left to right:

Yogesh Gupta, Bajaj Allianz Life Insurance Co. Ltd, India;
Facilitator: Craig Churchill, ILO/
Microinsurance Innovation Facility, Switzerland;
Hengxuan Su, China Life, China.

47 — Barbara Magnoni,
MicroInsurance Centre,
United States.



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Microinsurance Learning and Knowledge is a project to assess its value and business case.

Parallel session 14

Life

The CARD MBA product simply offered to cover funeral costs and delivered this promise by paying the claims quickly and giving the beneficiaries peace of mind. It reduced the reliance on debt and created tangibility and trust. However, it also enabled and tempted the family of the deceased to spend more on the funeral. The MicroEnsure product, with a slower claims settlement, did not meet the deadline of covering the funeral expenses on time, but provided additional capital for investment and consumption smoothing. It reduced the temptation of overspending on the funeral since the amount had to be borrowed first, which could entail a new risk. Even after repaying this loan, the beneficiaries were more likely to save, replace lost income, or invest in a business or asset.

This product comparison shows that the timing of the payouts has an influence on how the money is spent. Payout timing should be taken into consideration together with the intentional use of the payout when designing micro life insurance products (see Figure 35).

Lessons learnt

- Clients find value in life insurance products combined with a savings component, especially when the arrangement provides for secure savings with a competitive yield, flexibility and wide insurance coverage across all ages and is, above all, affordable.
- Microinsurance is viewed as an important safety net for the poor. Various trials of providing microinsurance to low-income groups have achieved positive affirmation by government and low-income groups.
- When designing new products, careful attention should be given to the intended outcome. In the case of life insurance, the timing of claims processing can have a major influence on whether the payout is used to cover funeral-related costs or long-term investment purposes.

Figure 35

Implication for product design



Calculating

- Understanding existing financing mechanisms can maximise value
- Target speed of claims based on when cash is most needed and unavailable elsewhere



Scheduling

- Consider the purpose of coverage, and the other financing tools available to clients at different times and for different needs
- Some delays may actually *increase* value for some clients



Honoring

- Transparency and setting clear expectations is important
- Delays must be intentional and clearly communicated

Parallel session 15

Health 2

Understanding the drivers of claims

Claims matter; they take a central role in client value and viability and should be seen as an opportunity to improve both. Claims are the moment of truth for the insurer to deliver on the promise of insurance. For the insurer, claims are also an opportunity for gathering data on the performance of the scheme and identifying opportunities and threats. To understand claims drivers in South Asia more deeply, the ILO Microinsurance Innovation Facility undertook a study comparing claims data of three schemes with in-patient benefits: VimoSEWA and Uplift, both in India, and Naya Jeevan in Pakistan.

Because of the limited monitoring capacity, no scheme could provide all data points requested:

- Diagnosis,
- Length of stay,
- Amount claimed, amount paid,
- Claimant age, gender,
- Occupation,
- Urban or rural,
- Type of hospital.

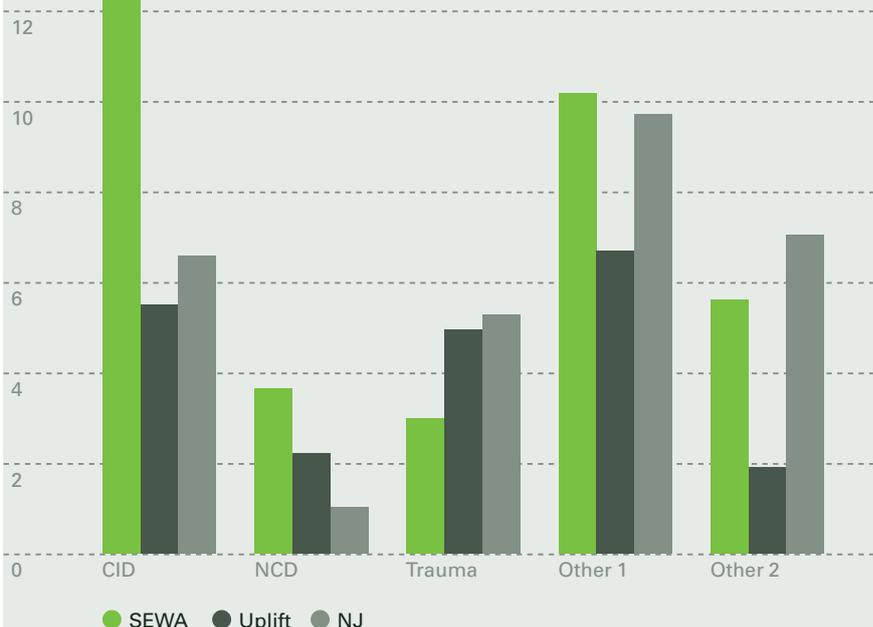
Nor could it provide in a single data set the data it did have. Imperfect data are nevertheless also revealing. Mapping by disease group brought to light the fact that VimoSEWA has a claims frequency for common infectious disease that is almost twice as high as the claims frequency of the other schemes, potentially opening the door for the introduction of targeted prevention work (see Figure 36).

In the midst of differences, commonalities in claims patterns for the three schemes were clear. A double disease burden (i.e. presence of both communicable and non-communicable disease) was evident in each scheme, and similar claims frequencies were observed despite the variations in contexts, products and business models. While overall claims frequency was within the expected range of 2–4% depending on the disease, the schemes still experience challenges in achieving viability.

These findings raise points for further consideration:

- Given that so many claims are for common, preventable diseases, how effective is health microinsurance in improving health outcomes?
- As the schemes are seeing hospital claims for common, preventable illnesses despite their work around primary care interventions, what is the relationship between out-patient care and hospital claims?
- There is also a need to expand data on claims drivers more broadly in the health microinsurance sector.

Figure 36
Reasons for hospitalisation among selected schemes in South Asia
Claims frequency per 1,000 members



Source: Holtz, Jeanna. Presentation "Drivers of Claims in Health Microinsurance." 9th International Microinsurance Conference 2013.

Parallel session 15
Health 2

Understanding hospitalisation of insured women for fever

Since 1992, the National Insurance VimoSEWA Cooperative has been offering a voluntary composite microinsurance product for women in India's informal economy (and their families) which includes in-patient cover. When a study showed a high rate of hospitalisation of members for common illnesses such as fever, the organisation wanted to understand why. In response, a qualitative study was undertaken in Gujarat, India, consisting of ten case studies of insured urban women hospitalised for common illnesses (selected by systematic sampling) and five doctor interviews.

The study found a mix of factors in the hospitalisation decision:

- Detering factors: fear of hospital, household disruption, costs
- Precipitating factors: minor persisting symptoms, acute symptoms, failed outpatient treatment
- Facilitating factors: having insurance, providers' perspective

The results presented yielded a strong indication that the insurance is compensating for a weak health system. While there was little indication of a member's moral hazard, the possible impact of the woman's structural position within the household may be a factor. Provider moral hazard is unclear.

These findings offer various implications for practice and policy. Firstly, there is a need for health education both in regard to preventive and promotional aspects as well as for enhanced understanding of care. Secondly, the sustainability of the insurance programme and the needs of members must be balanced when considering benefits. An even broader question raised by the study is whether voluntary insurance can be a substitute for the lack of universal health care?

VimoSEWA (India)

Number of people insured
100,000 individuals

Insured risks
Hospitalisation, personal accident, life, property

Premium range
INR 400 (US\$ 6–7) per family per annum

A provider-driven health plan in Kenya

Currently in the design phase, a provider-driven health plan is being brought to the market in Kenya through a partnership between the Kenyan network of private healthcare providers KMET, insurer AAR, mobile network operator SafariCom, PharmAccess Foundation and third-party administrator Africa Medilink Limited.

Called Bima Poa, the product is being designed and marketed with the active participation of the KMET network of healthcare providers. This approach leverages the providers' existing position in the communities and recognises that quality of care and services is vital to the success of a health plan. It also invests in health clinics for business growth and quality improvement. The six pilot facilities in Kisumu and Siaya, Kenya, were selected for having adequate services, finance and administrative capacities, catchment areas, strong entrepreneurial traits and a community environment.



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48 — Left to right:
Facilitator: Thomas Wiechers,
GIZ, Germany; Tara Sinha,
SEWA, India; Doriane Nzorubara,
Pharm Access, Netherlands.

49 — Jeanna Holtz, ILO/
Microinsurance Innovation
Facility, Switzerland.



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The product was designed with the involvement of beneficiaries, healthcare providers and other partners. It covers all outpatient primary care except chronic disease. The premium is US\$ 94 per family per year paid through M-Pesa¹² in up to two instalments. This latter component is expected to facilitate automated administration and will be supported by sales through field community health workers, health centres, sales executives and a call centre. Providers will be reimbursed through capitation with a service fee for maternity services, thereby sharing risk and addressing concerns of provider moral hazard (see Figure 37).

Although still in the design phase, this innovative scheme offers a new way of bringing together a range of actors to develop and provide a health product. While dependent on provider capacity in both sales and size, there is nevertheless a significant opportunity for scale.

BimaPoa (Kenya)

Number of people insured: in design phase. 2013 target: 1,068 families. 2018 target: 91, 178 families

Insured risks

Outpatient primary care, maternity

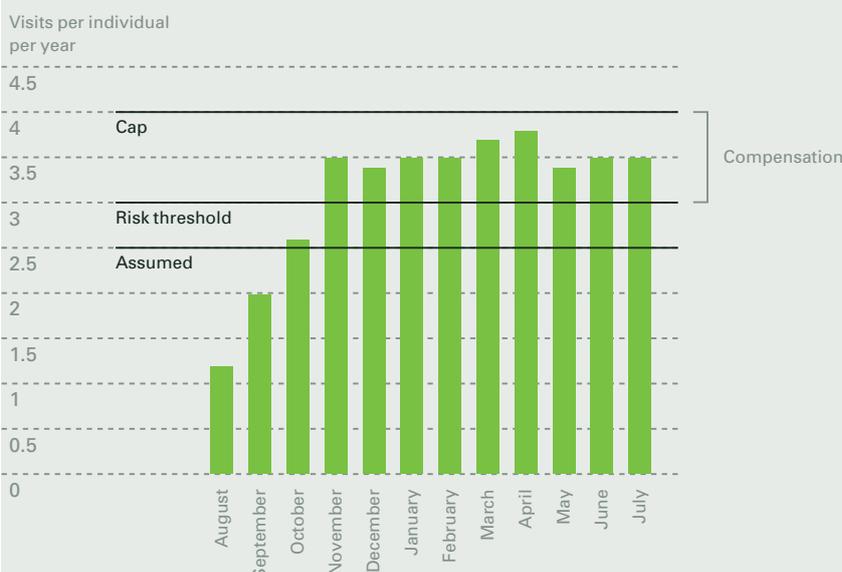
Premium range

KES 8,000 (US\$ 94) per family per annum

Lessons learnt

- Evidence on claims drivers is still limited.
- There is a need for health education on both preventive and promotional aspects.
- Sustainability and need must be balanced when considering benefits.
- Insurance appears to be compensating for weak health systems.
- Provider-driven health plans offer a strategy for leveraging the providers’ existing position in the communities and controlling costs, thus bringing together a range of players.

Figure 37
Bima Poa provider capitation compensation scheme
Number of visits per year per enrollee



Source: Nzorubara, Doriane. Presentation “Bima Poa Health Plan: Provider-Based Health Plan.” 9th International Microinsurance Conference 2013.

12 M-Pesa (m for mobile and pesa for money in Swahili) is a mobile-phone based money transfer and micro financing service.

Parallel session 16

Academic research 2

Cases reviewed in this session included an evaluation of a mass health insurance scheme, the effect of health insurance on household consumption, and the impact of shocks on poor households.

RSBY: key performance indicators study

The first presentation revealed early findings of an ongoing study of four years of data from India's inpatient health insurance scheme *Rashtriya Swasthya Bima Yojana (RSBY)*.

RSBY (India)

Number of people insured
37.6 million families; 179.7 million individuals under the poverty line

Insured risks
Inpatient health

Premium range
US\$ 6.50–9.00 per family per year (US\$ 0.50–0.70 per patient)

Using data from India's Ministry of Labour and Employment, the study will aim to explain district-level differences in **enrolment, hospitalisation, claims ratios, premiums, and average family size** over the first four years of RSBY. At this stage, CIRM (the Centre for Insurance and Risk Management) shared descriptive results of all indicators as well as a preliminary **regression** to uncover the drivers of **enrolment**.

The descriptive analysis shows that in most areas, enrolment has stagnated at around 54%, with the exception of the wealthiest districts whose enrolment levels have grown steadily to 68%. (During its first four years, the RSBY scheme was rolled out in phases, beginning with wealthier districts and moving toward poorer ones.) Hospitalisation rates reached 5% in the wealthier pilot districts but have since dropped to 3%; rates in poorer districts have not exceeded 2% in their first two years. Premiums are decreasing over time; this may be related to low utilisation. Average family size seems to be growing over time. There is no evident pattern of changes in claims ratios.

Box 6

Effects of health insurance

- Health insurance coverage could play an important role in smoothing consumption against severe health shocks.
- Access to health insurance eliminates the negative aspects of severe illness on investment in girls' education and agricultural activities.
- Benefits of social insurance for low-income households could come from reducing the use of costly smoothing mechanisms.
- The inference of the welfare gain of additional insurance from consumption smoothing alone is incomplete.

Source: Kai Liu. Presentation: "Health Insurance Coverage for Low-income Households: Consumption Smoothing and Investment." 9th International Microinsurance Conference 2013



50 — Rupalee Ruchismita, CIRM Design and Research Labs, India.

51 — Kai Liu, Norwegian school of economics, Norway.



Some of these statistics call into question the level of outreach and awareness in the newer, poorer districts, as both enrolment and utilisation are below expected rates.

The team ran a regression analysis to uncover the drivers of enrolment. It found that the previous year's enrolment and hospitalisation ratios were significant determinants of the current year's enrolment ratio. In addition, the state (representing institutional factors) was a significant predictor. Interestingly, the number of years a scheme had been operating in a district is not significant, and joining the scheme in later phases has a surprisingly positive relationship with enrolment. One supply-side factor was identified: when a district's insurance provider switches from private to public, enrolment tends to drop.

Further research will attempt to break down state-level variables into specific factors, such as field officer incentives, government and local health worker engagement and state enrolment initiatives. Separate regressions to explain hospitalisation ratios, claims ratios and premium prices will also be developed.

Consumption smoothing and investment

The second case, from the Norwegian School of Economics, looked into the effects of an increase in public health insurance on low-income households.

In China, universal health insurance through a Cooperative Medical Scheme (CMS) collapsed in 1979, leaving around 90 percent of all farmers uninsured.

New Cooperative Medical Scheme (China)

Number of people insured
812 million

Insured risks
Inpatient health

Premium range
US\$ 12 per person
(US\$ 3 with subsidy)

In 2003, the central government launched the New Cooperative Medical Scheme (NCMS) with the goal of offering health insurance to all rural areas by 2010.

Each provincial government was assigned a number of counties in which to expand coverage.

By 2008, the programme had been implemented in all rural areas, covering the entire rural population.

Because insured and uninsured individuals are inherently different, it is usually difficult to make causal arguments about the impacts of health insurance on household consumption. However, the study capitalises on a change in policy – the expansion of China's new medical scheme from 15% to over 95% coverage in just five years – to determine the **effect of health insurance on consumption smoothing and investment in the face of health shocks**. Where other consumption smoothing mechanisms are present, it is helpful to identify whether insurance is adding value over and above these other strategies.

Using household panel data from 36 counties prior to and after the policy (China Health and Nutrition Survey), it calculates the household-level financial effects of a health shock prior to and after the expansion of the schemes.

Prior to the reform, a health shock resulted in a significant drop in girls' enrolment in school and investment in livestock and durable goods. After the scheme's expansion, a health shock had no impact on any of these three measures. In essence, the **health insurance scheme eliminated the impact of health shocks** on girls' education and investment in livestock and durable goods.

In addition to this, prior to the reform, a health shock increased out-of-pocket expenditure by a substantial magnitude; the **spike in expenditure was much lower after the reform**. The impacts on worker productivity and income were also mitigated once the reform was in place: this may be due to improvements in healthcare quality.

Parallel session 16
Academic research 2

Kwara financial diaries

A team from the VU University of Amsterdam and the Tinbergen Institute presented initial findings from a longitudinal study in which 309 participants in Kwara, Nigeria, **chronicled their health and financial lives weekly for a year.** These “diaries” track all cash and in-kind inflows and outflows and all major-asset or health-related events. The researchers supplemented the diaries with other tools, including in-depth interviews, baseline and endline surveys, incentivised time preference and risk-attitude games, and periodic household inventories. The team built a preliminary fixed-effects regression to model how health shocks impact household finances for insured and uninsured individuals.

52 — Lukasz Marc, VU University Amsterdam and Tinbergen Institute, Netherlands.

53 — Facilitator: Richard D. Phillips, Georgia State University, United States.



52



53

Health spending and borrowing were significantly higher in the immediate aftermath of health shocks. Purchases and saving withdrawals were also higher, though the difference was not significant. Surprisingly, the **health expenditures of insured and uninsured respondents were essentially the same.** The majority of these expenses were medicines purchased from patent medicine vendors. Thus, in spite of their coverage, insured clients are not visiting facilities as frequently as expected and instead continue to obtain medicines through alternate routes.

Going forward, the team hopes to answer the following research questions:

- When do people use which tools to finance shocks? How does this affect their cash flow?
- How do strategies differ between insured and uninsured people?
- How do the strategies differ for minor frequent shocks vs. large infrequent shocks?
- What are the short and long-term financial effects of health shocks?
- How can we explain “overshooting” (an excess of cash flow after a shock)?
- Is high frequency data a more useful way of understanding the impact of health insurance?

Lessons learnt

- RSBY enrolment and claims are somewhat lower than expected in newer regions. Institutional and supply-side factors at the district level might be part of the explanation.
- In China, health insurance eliminated the negative impact of health shocks on investment in girls’ education, livestock and in durable goods. It also dramatically lowered out-of-pocket expenses and productivity losses stemming from health shocks.
- Financial and health diaries in Kwara point to similar health expenditures among insured and uninsured individuals, indicating that insured clients are still seeking care outside the network.

 Agenda

 Day 3 afternoon sessions
 14 November 2013

 Plenary 4

**Business case and client
 value: the magical balance**

Asher Hasan
 CEO, Naya Jeevan,
 Pakistan

Martin Hintz
 Allianz SE,
 Germany

Facilitators

Michael J. McCord
 President, MicroInsurance
 Centre, United States

Craig Churchill
 Chairman, MicroInsurance
 Network, ILO/
 Microinsurance innovation
 Facility, Switzerland

 Closing

**Closing remarks
 and Welcome 2014**

Rahmat Waluyanto
 Vice Chairman, OJK,
 Indonesia

Thomas Loster
 Chairman, Munich Re
 Foundation, Germany

Véronique Faber
 Executive Director,
 Microinsurance Network,
 Luxembourg

Plenary 4

Business case and client value: the magical balance

Can clients and providers alike benefit from microinsurance? The ILO Microinsurance Innovation Facility and the Microinsurance Learning and Knowledge (MILK) project of the Microinsurance Centre shared culminating insights into this session after several years of research on the client value and financial viability of microinsurance products.

Does microinsurance provide client value?

Microinsurance can reduce the use of burdensome coping mechanisms.

Twelve impact studies have shown that insurance reduces the use of these difficult strategies, including asset selling, borrowing and child labour.

Appropriate product structure and service response provides value.

Client-centred product design and customer service are major drivers of value. Products should be intentional about the ways in which clients will use the insurance: for instance, the timing of life insurance payments determines whether or not beneficiaries will spend more on the wake, funeral or future consumption and investment.

Microinsurance improves access and utilisation of health services. Over 20 studies have shown a positive effect of insurance on health access and utilisation, including earlier treatment, higher utilisation of modern care, and fewer hospital days. A handful of impact studies have also connected these factors to improved health outcomes.

Microinsurance must be complementary – it is insufficient to address risks. Client math studies showed that insurance payouts accounted for between 30% and 80% of shock expenses – in no case did it cover the full loss. It is important to explore how insurance is used in relationship to other services; this may illuminate opportunities for linkages with these other mechanisms.

Microinsurance can stimulate investment. Ten impact studies have shown increases in agricultural and business investment among insured groups.

Is there a business case for microinsurance?

Life insurance products tend to be profitable and are often the quickest products to reach scale. **Health is less profitable and may require subsidy.**

Private health microinsurance models struggle to achieve profitability, while government-subsidised programmes reach scale more easily. **Catastrophe microinsurance is unlikely to achieve viability on its own**, based on the history of the insurance market in developed countries.

Standalone microinsurance products tend to be less viable than mixed models. By sharing overhead costs with “macro” products, microinsurance premiums can stay low and affordable while still generating profit.

Microinsurance requires a long-term perspective and a view of the whole value chain. Revenues and loss ratios can change substantially from year to year. It is also crucial to take into account the commissions of distributors when thinking about profitability.

Scale might be a proxy or a precondition for viability. Products that have achieved scale are concentrated mostly in Asia, and unsurprisingly, most are life and funeral policies. Interestingly, subsidies do not appear to be necessary for scale.



54

54 — Left to right:
Asher Hasan, Naya Jeevan,
Pakistan; Martin Hintz, Allianz
SE, Germany.

55 — Left to right:
Facilitators: Craig Churchill,
Microinsurance Network/
ILO/Microinsurance Innovation
Facility, Switzerland;
Michael J. McCord,
MicroInsurance Centre,
United States.



55

Competition rationalises pricing, motivates innovation and client focus. As more products enter the market, clients have a choice and this helps to drive improvements in client value. This is especially evidenced in the life microinsurance market, where competition has driven growth, moderated pricing and encouraged innovation.

What are some examples of innovations that have benefited both clients and providers?

Investing in **technology** such as biometric smartcards and livestock identification chips has **reduced fraud** and claims ratios for the insurer and **improved claims efficiency** for clients. In the short term, moving towards **high-touch sales strategies** is often costly but it **improves client engagement, trust and understanding.**

This client-focused strategy leads to higher sales, which can make a product profitable. And incorporating **value-added services** in health and education can lead not only to higher social impact but also to higher **retention.**

The practitioners' view

Two microinsurance practitioners illustrated different takes on how products can evolve towards achieving a balance of value and business case:

Plans for **Naya Jeevan**, a health insurance product in Pakistan, include investment in client value upfront with the anticipation that scale and profitability will follow. Where most microinsurance products focus on hospital based care, Naya Jeevan's plans focus on the principal need of the clients: primary and outpatient care. They emphasise the creation of tangible value for clients: for example, that all clients receive an orientation and medical examination upon joining.

By investing in client engagement, the product can keep acquisition and retention costs low. The theory is that once clients experience this value, their willingness to pay will increase. Especially in nascent markets, it is important to experiment with products and to increase consumer awareness over time. Subsidies can help during this incubation period.

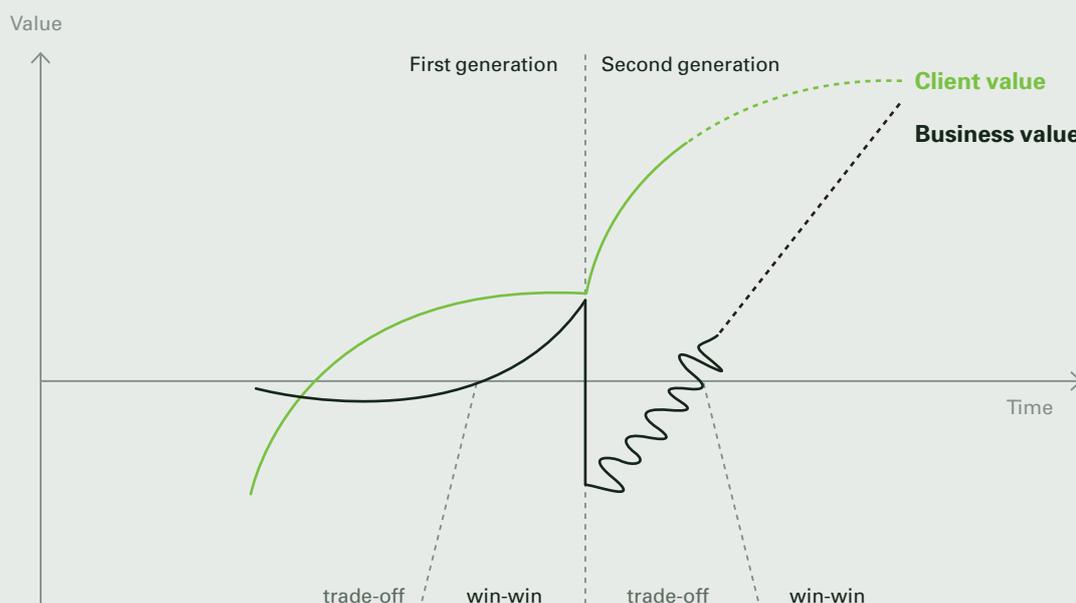
Naya Jeevan (Pakistan)

Number of people insured
250,000 (preventive health plan) + 25,000 (integrated health insurance)

Insured risks
Outpatient health

Premium range
US\$ 2/person/month (individual domestic workers/families) and US\$ 1–1.50/person/month (larger groups)

Figure 38
Magical balance



Source: Churchill, Craig; McCord, Michael. Presentation "The magical balance ." 9th International Microinsurance Conference 2013.

Plenary 4

Business case and client value:
the magical balance

Allianz argues for a different approach: first achieve scale and then invest in additional value over time. A product should grow with its clients, becoming more complex and valuable as clients grow in their awareness and willingness to pay. This process should be gradual: it can be dangerous to add too much value too soon.

The Allianz strategy requires a long-term view: although there may be little profit at first, building a brand will encourage the same clients to buy more profitable products in the future. Allianz defines profit as “customer gratitude”. If a product is profitable, this is an indication that it has value for clients.

Although the strategies differ, both agree that value itself is a driver of profitability.

Allianz (Germany)

Number of people (micro)insured
25 million

Insured risks

Life, credit life, disability, personal accident, vehicle, home, livestock, weather

Conclusions

Many first-generation products passed through early struggles where adding client value meant sacrificing profits, but they have now achieved a balance and are improving value to remain competitive. Many insurers may now take the leap into a second generation of more valuable products. As the market becomes more sophisticated, companies will again sacrifice short-term profits to dramatically improve value, and eventually these investments will translate into profits for insurers (see Figure 38).

Lessons learnt

- Microinsurance provides value to clients by reducing their expenditures, helping them to avoid stressful financing strategies and increasing access and utilisation of healthcare. Designing client-centred products and providing quality service facilitates these outcomes.
- The most financially viable products are life insurance schemes, schemes that share resources with macro products, and schemes that have achieved scale.
- Health products remain the most difficult value proposition for insurers and often require subsidising to reach scale.
- As markets become more sophisticated and competition increases, profits are increasingly driven by investments in client value.
- Technology, high-touch client engagement strategies, and added services have all been shown to impact both profits and value.
- Some practitioners argue for investing in value first to promote retention and a growing willingness to pay. Others believe that a product must first achieve scale and build a brand and then gradually grow in value and complexity.

Conference closure

"The international conference provided a valuable opportunity to promoters, supporters and practitioners to learn how to implement and develop micro-insurance in Indonesia", said Rahmat Waluyanto, Vice-Chairman of OJK, in his closing remarks on behalf of the host organisations. "The timing of the conference is also opportune. The insurance industry in the country has grown by 6% annually over the past five years, but the insurers' reach has so far not extended to people far and wide who need the protection the most."

For this reason, the government has introduced a financial inclusion programme, the National Strategic Blueprint for Indonesia Financial Literacy, as a key financial sector activity on its agenda," he said. "The conference has taken place at the right time as a reminder to not relax our efforts to pursue financial inclusion."

Mr Waluyanto added: "One of our efforts to enhance financial inclusion is through a financial literacy programme. And I am proud to announce that OJK has decided to launch a National Financial Literacy Day which will be inaugurated by Indonesia's President Susilo Bambang Yudhoyono."

OJK will be establishing a special work unit to collaborate with Bank Indonesia, and the government in following up on the President's directive to open financial access to the lower-class society", Mr Waluyanto said. "OJK will educate the public in regions in Indonesia which lack knowledge of the financial sector. There will be several initiatives involving people in financial education, which is becoming one of the main tasks of OJK."

On behalf of the Microinsurance Network, Executive Director Véronique Faber thanked the hosts, in particular for the memorable gala dinner at the end of Day 2.

Next year will be the 10th edition of the conference, she said, and so much has happened since the first conference in Munich: "Innovations, growth, evolution, learning from failures, global insurers becoming key players, more sophistication and efficiencies, new partnerships developing and more value-added services reaching millions of low-income people." Access to effective insurance for low-income people is essential to sustainable development, she added. "As we look ahead, we need to make the case for insurance within the complexities of climate change debates, food security issues, chronic unemployment leaving millions of young people without something to aspire to, poor housing, and growing economic disparity", she finished.

On behalf of the conference organisers and participants, Thomas Loster, Chairman, Munich Re Foundation, thanked the host organisations OJK and DAI and their staff members for their hard work in making the conference such a success. "In countless ways, you made our stay here enjoyable and enabled us to take back lasting memories of a worthwhile visit."

Mr. Loster announced that the 10th International Microinsurance Conference will take place in Mexico on 11-13 November 2014.



56 — Left to right: Rahmat Waluyanto, Deputy Chairman of OJK Board of Commissioners, Indonesia; Véronique Faber, Executive Director, Microinsurance Network, Luxembourg; Thomas Loster, Chairman, Munich Re Foundation, Germany.

Field trip

Market kiosk and housing protection against fire

On the day after the conference, some 40 delegates visited Jakarta's Tanah Abang Market to learn about the DanaKios and DanaRumah kiosk and housing microinsurance coverage provided to vendors there.

They were welcomed by Ngalim Sawega, Deputy Commissioner of Insurance, OJK, Bambang Musawardyana, Head, Jakarta Province Disaster Management Agency, and Christine Setyabudhi, Chief Executive Officer and President Director of Asuransi Cigna Indonesia. Six of the market's vendors were presented with oversized placards representing one year's worth of free microinsurance benefits (see photo, below). This was followed by a brief question-and-answer session.

The products

DanaKios and DanaRumah together comprise a dual corporate social responsibility (CSR) initiative between Asuransi Central Asia, provincial Jakarta's Disaster Management Agency and local authorities. Based on national regulations which encourage the use of insurance to manage risks, the products address the region's problem with fire damage (approximately three buildings burn in Jakarta every day) while attempting to increase financial literacy and build the infrastructure necessary for a thriving microinsurance sector.

DanaKios and DanaRumah provide benefits to the value of US\$ 100 and US\$ 300 respectively, when fires affect insured kiosks or housing (regardless of the amount of destruction involved). Initially, the consortium of donors (displayed in the photo below) will offer this coverage on a complimentary year-long basis to 7,000 targeted low-income households and 3,000 kiosk vendors in Tanah Abang and beyond. Other customers (and those whose free coverage has expired) can purchase the products on line or at participating retailers for a premium of US\$ 2.

How they work

Each contributing donor purchases packages worth IDR 7,000,000 (US\$ 584.04) to insure blocks of 500 low-income dwellings or vendor kiosks. For each block, the local authorities enumerate the housing (which must be legally registered for inclusion) or kiosks involved for Asuransi Central Asia, which subsequently organises meet-and-greets in the applicable neighbourhoods and markets to explain the schemes.

Master policies listing all participants in the residential districts and markets are then furnished to the local authorities, with copies distributed to the relevant sub-district and market heads as proof of coverage. Information about the products is also posted prominently in public areas. If fire damage occurs, the corresponding sub-district or market head submits a notification letter for Asuransi Central Asia's review; all claims judged legitimate are paid in cash within ten working days of submission. Because DanaKios and DanaRumah were launched so recently (on 14 and 23 November 2013), no claims have yet been filed.

57 — Twenty-one participants from 9 countries join the field trip to Blok G Market, Tanah Abang, Jakarta to learn about "Microinsurance for Small Kiosks".

The purpose of the Field Trip is to witness and learn about the "Fire Microinsurance Programme" dedicated to the less fortunate people whose house are prone to fire.



CSR and microinsurance

DanaKios and DanaRumah are initially being offered through CSR partnerships with the donors for several reasons.

First, this arrangement provides policyholders with a free introduction to microinsurance that increases their financial literacy and demand for risk management tools – something the donors can capitalise on if they introduce their own microinsurance products. To facilitate such innovation, the field trip served as a kick-off for multiple CSR-themed events, including a two-hour “sharing session” between participating donors and low-income DanaRumah beneficiaries from ten residential sub-districts. The session will teach policyholders about general microinsurance concepts, DanaRumah’s specific benefits, terms of coverage and claims procedures and even opportunities of becoming microinsurance agents in their communities. It will also provide donors with important insights into clients’ needs and potential ways of serving them.

The CSR partnerships additionally enable participating organisations, including Jakarta’s Disaster Management Agency, Asuransi Central Asia and local authorities to split the costs of what would otherwise be a prohibitively expensive project. Through their demonstration effects, however, organisers believe that DanaKios and DanaRumah will encourage stakeholders to continue operating within Jakarta’s microinsurance sphere.

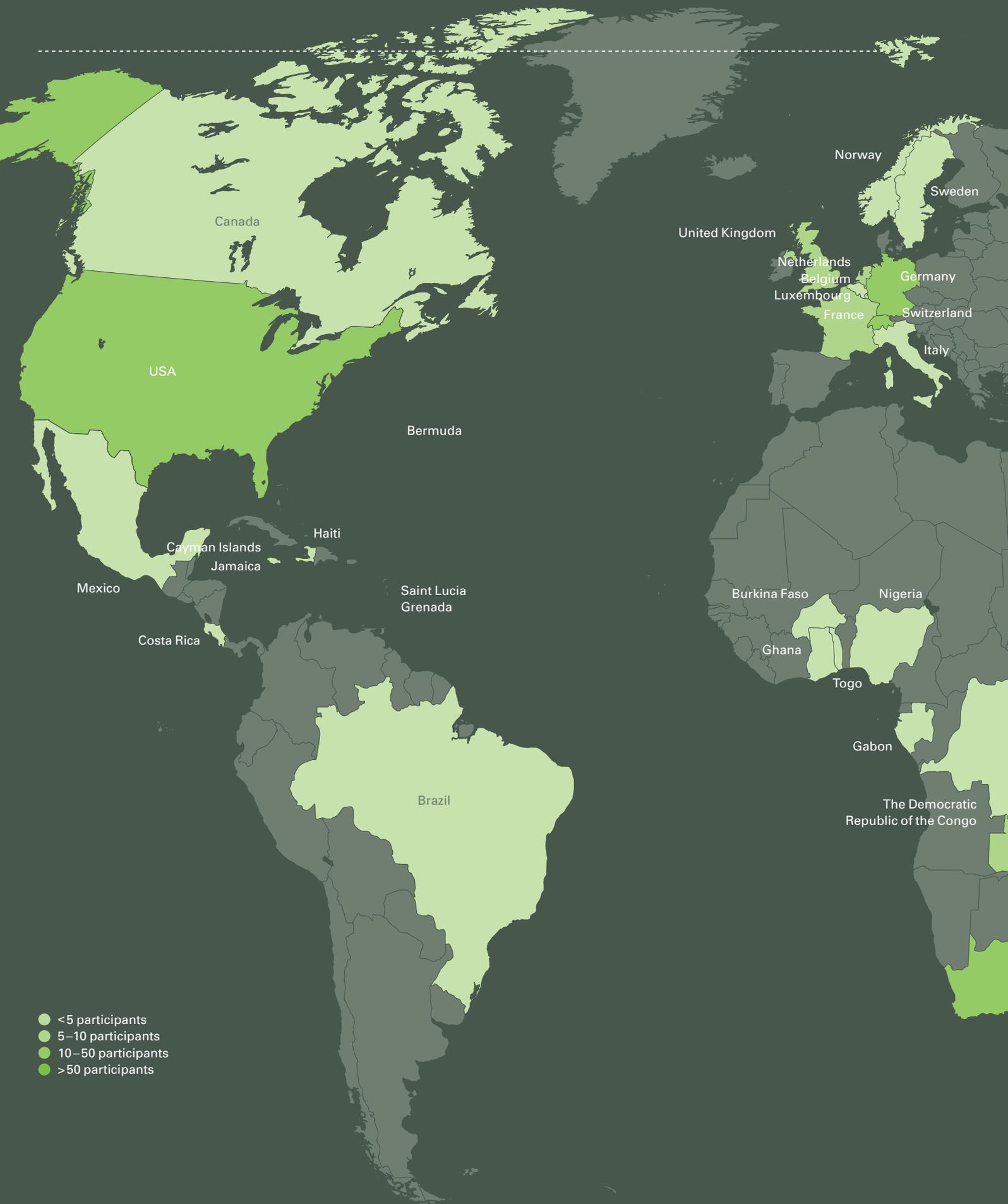
This financing model – and specifically microinsurance – further allows donors to stretch their CSR budgets by paying significantly smaller premiums upfront instead of the ex-post costs of disaster mitigation. With the savings made, participating companies can purchase more coverage or pursue other projects.

The CSR-based model presents an innovative and cost-effective way of connecting relevant organisations, developing introductory products, and increasing low-income client familiarity with insurance. It also helps build the infrastructure, relationships and expertise required for microinsurance to succeed.

58 — Market vendors receive coverage.



Countries represented

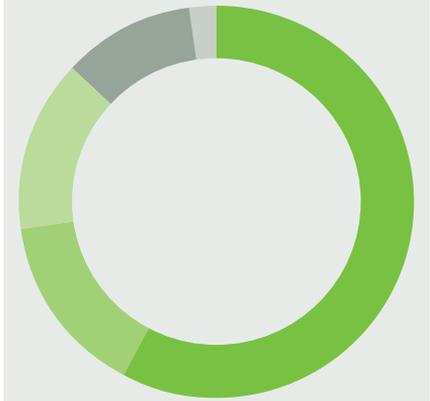




Participating organisations

<p>Australia AUS AID Macquarie University Syngenta Foundation</p> <p>Bangladesh INAFI Bangladesh Prime Islami Life Insurance Syngenta Foundation</p> <p>Belgium BRS – Belgian Raiffeisen Foundation</p> <p>Bermuda Haverford Bermuda</p> <p>Brazil Bradesco Seguros</p> <p>Burkina Faso ILO/Microinsurance Innovation Facility</p> <p>Cambodia PKMI</p> <p>Canada Denis Garand and Associates ID&CS MicroInsurance Centre</p> <p>Cayman Islands Caribbean Catastrophe Risk Insurance Facility</p> <p>China China Life Insurance</p> <p>Congo, The Democratic Republic of The LISUNGI GIE - B.U.O. Sprl</p> <p>Costa Rica Omtrix Inc.</p> <p>Ethiopia Ethio Life and General Insurance SC ILO Regional Office for Africa National Bank of Ethiopia</p> <p>Fiji Pacific Financial Inclusion Programme</p> <p>France AXA</p> <p>France Hannover RE MetLife PlaNet Guarantee Pleiade Conseils</p> <p>Gabon CIMA</p>	<p>Germany AZii Allianz SE BMZ ERGO Insurance Group GIZ Hannover RE Munich Re Foundation</p> <p>Ghana UT Life Insurance</p> <p>Grenada GARFIN Grenada Co-Operative Bank Ltd.</p> <p>Haiti Fonkoze</p> <p>Hong Kong International Insurance Society Swiss Re</p> <p>India Agriculture Insurance Company Bajaj Allianz Life Insurance CARE CIRM Design and Research Labs HDFC ERGO General Insurance ICICI Lombard ICICI Prudential Life Insurance Microsave National Insurance VimoSEWA SEWA Tata AIG General Insurance</p> <p>Indonesia A.J. Sequis Life Administrasi Medika AIG Insurance Indonesia Allianz Life Antara ARLDF Berita Sato News Channel Bima Bina Dana Arta Bisnis Indonesia Bloomberg TV Indonesia Business News CCROM-SEAP Central Asia Insurance Dayin Mitra Dewan Asuransi Indonesia DKI Jakarta Equity Life Indonesia Generali Indonesia GIZ - RFP Harian Ekonomi Neraca Harian Republika Himalaya Pelindung Hukum Online IFC IFC / The World Bank Group Indo Premier News Indonesia Finance Today Indonesia Life Insurance Association Info Bank Institute of Technology Bandung</p>	<p>Insurance Council of Indonesia Investor Daily Jakarta Times kabar3.com Keluarga Kementerian Sosial RI Kontan Koran Sindo Maju Jakarta Manulife Media Asuransi Magazine Mega Life MicroSave Milliman Indonesia MNC Business Neraca Nestlé OJK Pasfm Pewarta Indonesia PMedia Indonesia Prudential Life Assurance Rakyat Merdeka Sun Life Syngenta Foundation Tempo Media The Jakarta Post The World Bank Tokio Marine Life WHO</p> <p>Italy International Fund for Agricultural Development</p> <p>Jamaica Financial Services Commission Jamaica International Insurance</p> <p>Japan Japan Risk Specialist</p> <p>Jordan Microfund for Women</p> <p>Kenya Insurance Regulatory Authority International Livestock Research Institute Jumuia Fund for Development NHIF PharmAccess</p> <p>Lebanon Commercial Insurance</p>	<p>Luxembourg ADA Grameen Credit Agricole Microfinance Foundation Microinsurance Network</p> <p>Malaysia Actuarial Partners Consulting Sdn Bhd Central Bank of Malaysia</p> <p>Mexico AMUCSS</p> <p>Mongolia Financial Regulatory Commission Mongolian Insurers Association School of Economic Studies, National University UNDP</p> <p>Netherlands Achmea APMG BV Berende Consulting Micro Insurance Association Nynenrode Business Universiteit PharmAccess VU University Amsterdam</p> <p>New Zealand Acacia Consulting Limited</p> <p>Nigeria Hygeia Community Health Care PharmAccess</p> <p>Norway Norwegian Insurance Council Norwegian School of Economics</p> <p>Pakistan GIZ Jubilee Life Insurance Naya Jeevan</p> <p>Papua New Guinea Office of Insurance Commissioner, Department of Treasury</p> <p>Philippines Asian Development Bank Cebuana Lhuillier Insurance Solutions GIZ GIZ – RFP Insurance Commission KCDI LGT Venture Philanthropy Mapfre Insular Insurance Corporation MicroEnsure Peoples General Insurance Pira, Inc.</p>	<p>Saint Lucia EC Global Insurance Company Limited Financial Services Regulatory Authority Saint Lucia Development Bank</p> <p>Singapore AXA Asia Regional Office LeapFrog Monsanto SAP Swiss Re</p> <p>South Africa BFA Cenfri Financial Services Board Hollard MIP Holdings Pty Ltd. MMI Holdings Mutual & Federal Old Mutual Wits University</p> <p>Sri Lanka Ceylinco Insurance Plc</p> <p>Swaziland Financial Services Regulatory Authority</p> <p>Sweden Bima</p> <p>Switzerland Accenture AG ILO/Microinsurance Innovation Facility International Association of Insurance Supervisors International Finance Corporation MicroInsurance Centre Stonestep Swiss Re Symbiotics Syngenta The Global Fund</p> <p>Tanzania, United Republic of Financial Sector Deepening Trust Intertrade Express Ltd. Metropolitan Life Tanzania MicroEnsure PharmAccess Tanzania Insurance Regulatory Authority</p> <p>Thailand Alliance for Financial Inclusion Office of Insurance Commission The World Bank</p> <p>Togo The World Bank</p> <p>Uganda Save for Health Uganda</p>	<p>United Kingdom Bupa ICMIF Microensure</p> <p>United States Abt Associates Columbia University EA Consultants Georgia State University Health Investment & Finance IFC ILO/Microinsurance Innovation Facility Inter-American Development Bank Group IRI Mercy Corps MetLife MiCRO Insurance Catastrophe Risk Organisation MicroInsurance Centre Milliman Purdue Water.org World Bank</p> <p>Viet Nam SNV State Bank of Vietnam TYM</p> <p>Zambia Advantage Insurance FinMark Focus General Insurance Insurers Association of Zambia Pension and Insurance Authority ZSIC General Insurance</p> <p>Zimbabwe Insurance and Pensions Commission</p>
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Figure 39
Number of participants per continent



● Asia	58%
● Europe	15%
● Africa	14%
● America	11%
● Australia	2%

Figure 40
Type of representatives



● Insurance and finance industry	22%
● Other	19%
● Donor agencies, development and international organisations	17%
● Microfinance and microinsurance providers	10%
● Government and regulatory bodies	10%
● Media	10%
● Consultants	7%
● Academics	5%

Acronyms

ADB Asian Development Bank	CLIS Cebuana Lhuillier Insurance Solutions (the Philippines)	HARITA Horn of Africa Risk Transfer for Adaptation	KMET Kenyan network of private healthcare providers
AIC Agriculture Insurance Company (India)	CSR Corporate social responsibility	HCHC Hygeia Community Health Care (Nigeria)	KNCU Kilimanjaro Native Cooperative Union
AMUCSS Asociacion Mexicana de Uniones de Credito del Sector Social	DAI <i>Dewan Asuransi Indonesia</i> Insurance Council of Indonesia	HEF Health Equity Fund	LCAM Low-cost agency model
a2ii Access to Insurance Initiative	FSDT Financial Sector Deepening Trust	HMF Health Mutual Fund	MILK Microinsurance Learning and Knowledge
BMZ Bundesministerium Für Wirtschaftliche Zusammenarbeit (German Federal Ministry for Economic Development Cooperation)	GDP Gross domestic product	HMI Health microinsurance	OJK Otoritas Jasa Keuangan/Financial Services Authority of Indonesia
BRS Belgian Raiffeisen Foundation	GIIF Global Index Insurance Facility	IAIS International Association of Insurance Supervisors	PILIL Prime Islami Life Insurance Limited
CARD Centre for Agriculture and Rural Development	GIIN Global Impact Investing Network	IBLI Index-based livestock insurance	PPP Public-private partnership
CBHI Community-based health insurance	GIZ Deutsche Gesellschaft für Internationale Zusammenarbeit (German Society for International Cooperation)	IC Insurance Commission, the Philippines	RCT Randomised control trial
CCROM Centre for Climate Risk and Opportunity Management	GPRs General Packet Radio Service	ICMIF International Cooperative and Mutual Insurance Federation	RSBY Rashtriya Swasthya Bima Yojna/National Health Insurance Programme, India
CEAR Center for the Economic Analysis of Risk at Georgia State University, USA	GPS Global Positioning System	ICT Information and communications technology	UHC Universal health coverage
Cenfri Centre for Financial Regulation and Inclusion	GSM Georgia State University	IDR Indonesian rupiah	
CHF Community health fund		IFC International Finance Corporation	
CHW Community health worker		ILO International Labour Organisation	
CIMA Inter-African Conference on Insurance Markets		ILRI International Livestock Research Institute	
CIRM Centre for Insurance and Risk Management		INR Indian rupee	
		IRI International Research Institute	
		IRDA Insurance Regulatory and Development Authority	
		IT Information technology	

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"The conference for Indonesia was taking place at a perfect time, coinciding with its agenda to accelerate development of microinsurance in the country."

Firdaus Djaelani, Commissioner of Insurance,
OJK, Indonesia

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