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*Craig Churchill and Michal Matul*  
*Social Finance Programme, Employment Sector*  
*International Labour Organization*  
*Geneva, Switzerland*

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## Table of acronyms

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AABY	Aam Admi Bima Yojana (India)
ACORD	Association for Cooperative Operations Research and Development
AD&D	accidental death and disability
ADB	Asian Development Bank
AIC	Alternative Insurance Company (Haiti)
AIC	Agriculture Insurance Corporation (India)
AIDS	acquired immune deficiency syndrom
AIG	American International Group
AIO	African Insurance Organisation
AKAM	Aga Khan Agency for Microfinance
AKDN	Aga Khan Development Network
ALMAO	All Lanka Mutual Assurance Organization (Sri Lanka)
APRA	Australian Prudential Regulatory Authority
ASR	Aseguradura Rural (Guatemala)
ATP	ability to pay
AWS	automated weather stations
BIP	Base Insurance Product
BG	bidding game
BHI	basic health insurance
BMZ	Federal Ministry for Economic Cooperation and Development (Germany)
BoP	bottom of the pyramid
BPL	below poverty line
BRS	Belgian Raiffeisen Foundation
CARD	Center for Agriculture and Rural Development (Philippines)
CaribRM	Caribbean Risk Managers Limited
CARICOM	Caribbean Community
CBHI	community-based health insurance
CCIS	Comprehensive Crop Insurance Scheme
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CDA	Cooperative Development Authority

Cenfri	Centre for Financial Regulation and Inclusion
CEO	Chief Executive Officer
CGAP	Consultative Group to Assist the Poor
CHAT	Choosing Health-plans All Together
CHF	community health fund
CIC	Cooperative Insurance Company (Kenya)
CIF	Confédération des Institutions Financières (West Africa)
CIGNA	Connecticut General Life Insurance Company of North America
CIRC	China Insurance Regulatory Commission
CIRM	Centre for Insurance and Risk Management (India)
CLIMBS	Coop Life Insurance and Mutual Benefit Services (Philippines)
COP	Conferences of the Parties
CRED	Centre for Research on the Epidemiology of Disasters
CSC	common service centers
CSR	corporate social responsibility
CV	contingent valuation
DBCV	double-bounded contingent valuation
DC	dichotomous choice technique
DECSI	Dedebit Credit and Savings Institution
DFID	Department for International Development (United Kingdom)
DGA	Denis Garand & Associates
DHAN	Development for Human Action Foundation
DNA	deoxyribonucleic acid
DRP	Disaster Response Product
DRTV	direct response television
ENT	ear, nose and throat
EPSS	Empresa Promotora de Servicios de Salud (Guatemala)
EU	European Union
EUDN	European Development Research Network
FAIS	Financial Advisory and Intermediary Services Act (South Africa)
FAO	Food and Agriculture Organization of the United Nations
FAQ	frequently asked questions
Fasecolda	Federación de Aseguradores Colombianos
FEWS NET	Famine Early Warning System Network
FGD	focus group discussion
FICCO	First Community Cooperative
FIDES	Federación Interamericana de Empresas de Seguros
FINCA	Foundation for International Community Assistance
FINO	Financial Information Network and Operations
FMiA	First Microinsurance Agency (Pakistan)

FMD	foot and mouth disease
FSA	Financial Services Authority
FSB	Financial Stability Board
FUNDASEG	Fundación de Aseguradores Colombianos
GDP	gross domestic product
GESS	Global Extension of Social Security (ILO)
GFDRR	Global Facility for Disaster Risk and Reduction
GFEP	Global Financial Education Program
GIIF	Global Index Insurance Facility
GIZ	Gesellschaft für Internationale Zusammenarbeit (Germany)
GNP	gross national product
GoI	Government of India
GPRS	general packet radio service
GRET	Groupe d'échange et de recherche technologique (Cambodia)
GTZ	Gesellschaft für Technische Zusammenarbeit (Germany)
HARITA	Horn of Africa Risk Transfer for Adaptation
HH	household
HIS	health insurance scheme
HIV	human immunodeficiency virus
HMI	health microinsurance
HR	human resources
IAA	International Actuarial Association
IAIS	International Association of Insurance Supervisors
IBLI	index-based livestock insurance
IC	Insurance Commission (Philippines)
ICARD	International Center for Agricultural and Rural Development
ICMIF	International Cooperative and Mutual Insurance Federation
ICP	insurance core principles
ICRISAT	International Crop Research Institute for the Semi-Arid Tropics
ICT	information and communication technology
ICU	intensive care
ID	identification
IDB	Inter-American Development Bank
IEI	in-patient expenses insurance
IFAD	International Fund for Agriculture Development
IFC	International Finance Cooperation
IFFCO	Indian Farmers Fertiliser Cooperative Limited
IFMR	Institute for Financial Management and Research (India)
IFPRI	International Food Policy Research Institute
ILAL	Insure Lives and Livelihood Programme (India)
ILO	International Labour Organization

IMF	International Monetary Fund
INR	Indian Rupee
IOM	International Organization for Migration
IP	in-patient
IPCC	Intergovernmental Panel on Climate Change
IRAM	Institut de Recherche et d'Applications des Méthodes de Développement (Mozambique)
IRDA	Insurance Regulatory and Development Authority (India)
IRDP	Integrated Rural Development Programme
IRI	International Research Institute for Climate and Society
IT	information technology
ITGI	IFFCO Tokio General Insurance Company, Ltd. (India)
JBT	Jamii Bora Trust (Kenya)
JBY	Janashree Bima Yojana (India)
KES	Kenyan Shilling
KFW	Kreditanstalt Für Wiederaufbau (Germany)
KPI	key performance indicators
LIC	Life Insurance Corporation (India)
LIC	low-income countries
LIS	Livestock Insurance Scheme (India)
LPS	Livestock Protection Scheme (India)
MAS	Manipal Arogya Suraksha Yojana (India)
MBA	mutual benefit association
MCCO	mutuals, cooperatives and community-based organizations
MCDI	Medical Care Development International
MCII	Munich Climate Insurance Initiative
MFI	microfinance institution
MFIC	Microfinance International Corporation
MGA	managing general agents
MIA	Micro Insurance Academy
MiCRO	Microinsurance Catastrophic Risk Organization
MIS	management information system
MNAIS	Modified National Agricultural Insurance Scheme (India)
MNO	mobile network operator
MNYL	Max New York Life
MOLISA	Ministry of Labour, Insurance and Social Affairs (Viet Nam)
MTA	money transfer agent
NABARD	National Bank for Agriculture and Rural Development (India)
NAIS	National Agriculture Insurance Scheme (India)
NASFAM	National Smallholder Farmers' Association of Malawi
NCMS	New Cooperative Medical Scheme (China)

NCMSL	National Collateral Management Services Limited
NDVI	normalized difference vegetation index
NGO	non-governmental organization
NHIF	National Health Insurance Fund (Ghana)
NHIF	National Hospital Insurance Fund (Kenya)
NIC	national identity card
NICE	National Insurance Corporation of Eritrea
NSCB	National Statistical Coordination Board (Philippines)
NSSF	National Social Security Fund (Kenya)
OE	open-ended formats
OECD	Organisation for Economic Co-operation and Development
OEI	outpatient expense insurance
OOP	out-of-pocket
OP	outpatient
PA	partner agent
PACC	Programa de Atención a Contingencias Climatológicas (Climate Contingencies Programme, Mexico)
PACE	product, access, cost, experience
PACS	primary agricultural credit societies
PC	payment card
PHFI	Public Health Foundation of India
PHP	Philippines Pesos
PIA	partner intermediary agent
PICC	People's Insurance Company of China
PoS	point-of-sale
PPP	public-private partnership
PRADAN	Professional Assistance for Development Action
PWDS	Palmyrah Workers Development Society (India)
RCT	randomized controlled trial
REST	Relief Society of Tigray (Ethiopia)
RFID	radio frequency identification device
RMB	Chinese Yuan
ROSCA	rotating savings and credit association
RP	revealed preferences
RPLI	Rural Postal Life Insurance (India)
RSBY	Rashtriya Swasthya Bima Yojana (India)
SaaS	Software as a Service
SACCO	savings and credit cooperative organization
SACCOL	Savings and Credit Co-operatives League
SAHB	State Animal Husbandry Department (India)
SAIA	South African Insurance Association



SBS	Superintendencia de Banca, Seguros y AFP (Peru)
SCC	Swedish Cooperative Centre
SDA	state designated agency (India)
SDC	Swiss Development Corporation
SEC	Securities and Exchange Commission
SECP	Securities and Exchange Commission of Pakistan
SEED	Save, Earn, Enjoy Deposits
SEEP	Small Enterprise Education and Promotion Network
SEGURO	Solvency/stability, Efficiency, Governance, Understanding of the Product, Risk-based capital and Outreach
SES	socio-economic status
SEWA	Self Employed Women's Association (India)
SFDA	Small Farmers' Development Agency (India)
SICL	Sanasa Insurance Company, Ltd.
SI-CUN	Self-Insured Credit Union Network
SI-MFI	self-insurance microfinance institution
SHEPHERD	Self-Help Promotion for Health and Rural Development
SHG	self-help group
SIM	subscriber identity module
SINCAF	Sindicato Carioca dos Fiscais de Renda
SKDRDP	Sri Kshetra Dharmasthala Rural Development Programme
SKY	Sokhapheap Krousar Yeung (Health for Our Families, Cambodia)
SLDB	State Livestock Development Board (India)
SMS	short message service
SP	stated preferences
SRF	social risk fund
SSP	Swayam Shikshan Prayog (India)
SSS	Sarva Shakti Suraksha
SSS	Social Security Software (DHAN Foundation, India)
SUSEP	Superintendência de Seguros Privados (Brazil)
TA	technical assistance
TCF	treating customers fairly
TIOLI	“take it or leave it” approach
TPA	third-party administrator
TPD	total and permanent disability
TPP	third-party payment
TSKI	Taytay Sa Kauswagan, Inc. (Philippines)
UEMOA	Economic Community of West African States
UMASIDA	Umoja wa Matibabu Sekta Isiyo Rasmi Dar es Salaam (United Republic of Tanzania)

UMSGF	Union des Mutuelles de Santé de Guinée Forestière (Guinea)
UN	United Nations
UNDP	United Nations Development Programme
UNIFEM	United Nations Development Fund for Women
USAID	United States Agency for International Development
VCI	vegetation condition index
VHC	village health champion
VHI	Vietnam Health Insurance
VOIP	voice over internet protocol
WASP	wireless access service provider
WBCIS	Weather-based Crop Insurance Scheme (India)
WFII	World Federation of Insurance Intermediaries
WFP	World Food Programme
WHO	World Health Organization
WMO	World Meteorological Organization
WRMS	Weather Risk Management Services (India)
WTP	willingness to pay
WWB	Women's World Banking
XBRL	eXtensible Business Reporting Language
XML	eXtensible Markup Language

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## Introduction

Craig Churchill and Dirk Reinhard

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*The poorest citizens of the poorest countries are typically exposed to the greatest risks. Earthquakes, floods, drought, disease, crime all tend to hit the poor hardest. Vulnerability and poverty go hand in hand, but microinsurance holds out the promise of breaking a part of the cycle that ties them together.*

Jonathan Morduch, 2006

Five years after the publication of the first volume of *Protecting the poor: A microinsurance compendium*, the publishers felt that it was time to look at recent developments and achievements and consider where the industry stands now.

The intervening years have seen a significant transformation. In 2008, the launch of the ILO's Microinsurance Innovation Facility, financed initially by the Bill & Melinda Gates Foundation, substantially increased the number of microinsurance pilots and research activities. In 2009, the CGAP Working Group on Microinsurance became the Microinsurance Network to formalize its efforts to share experiences and collaborate on improvements. In addition, in 2009, the Access to Insurance Initiative was launched – the second offshoot of the Network after the Facility – to help strengthen the understanding of insurance supervisors and their ability to create an environment more favourable to inclusive insurance. Microinsurance providers evolved as well. While many of the schemes discussed in the first book involved small organizations, there is now active involvement by governments and the insurance industry, which contributes to the attainment of significant scale.

The quotation above from Morduch talks about the promise of microinsurance to contribute to breaking the cycle of vulnerability and poverty. As described throughout this book, significant progress in fulfilling that promise is being made, though it still remains an aspiration. The promise of microinsurance can be seen at various levels as it benefits the working poor and their service providers, and contributes more broadly to economic development.

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### Benefits for the working poor

At the household level, the potential contribution of microinsurance to breaking the cycle of poverty has both protective and productive roles (e.g. Collins et al., 2009, Dercon, 2005, Cohen and Sebstad, 2005). There are many challenges in measuring these benefits, but initial evidence presented in Chapters 3 and 15 illustrates that some of those benefits are being realized.

On the protective side, insurance can protect policyholders from the financial consequences of various risks, including illness and death. If a risk is insured, the poor can cope more efficiently when they experience large losses. Regular payments of small premiums are easier to afford than the large immediate expenses that accompany crises.

On the productive side, insurance can be a means through which the poor can amass a lump sum of savings, for example through a long-term life insurance policy that allows them to build assets. Alternatively, insurance can help unlock access to productive inputs such as credit by covering some of the risks (e.g. drought, excess rain and livestock death) that a lender does not want to assume. There is also the peace-of-mind effect whereby the poor may feel less compelled to set aside unproductive funds in contingency saving under the mattress if they are insured, and therefore they may make larger investments, possibly in higher-risk, higher-return activities.

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### Benefits for the providers

A diverse range of organizations are involved in the provision of insurance to low-income households. Although these organizations have a variety of motivations and interests, they all can, or at least should, be able to benefit from providing insurance to the working poor.

Insurance can help cooperatives, unions, non-governmental organizations (NGOs), self-help groups, and other organizations that are primarily interested in helping their members manage risks, to achieve their social objectives. As such, insurance can be an ideal tool to complement other services they might be providing, including loss prevention, financial education and the provision of savings and emergency loans.

Microinsurance can assist more commercially minded organizations in entering a new market or expanding their services to an existing market. For example, microinsurance provides insurers with a bottom of the pyramid (BoP) strategy (Prahalad, 2005) to effectively reach and serve the next generation of policyholders today. For delivery channels, such as retailers, utility companies and providers of agricultural inputs, microinsurance is not only an additional source of revenue, but if designed properly, can also generate additional turnover for their core business.

Even governments can fall into this category of provider. Where they have an interest in extending social protection cover to excluded populations, such as workers in the informal economy, microinsurance may be a means to achieve that objective. Additionally, the proliferation of microinsurance should provide governments with more efficient means of expanding social protection, providing better cover against the increasing threat of natural disasters, and achieving public policy objectives including several of the Millennium Development Goals (Churchill, 2006).

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### Benefits for the community and the country

Various studies have demonstrated a causal link between the development of the insurance industry in general – not specifically microinsurance – and national economic development (Arena, 2006; Haiss and Sumegi, 2008). This is accomplished in part by supporting entrepreneurial activity. For example, by enabling businesses to operate with less volatility, insurance can promote economic stability. Since insurers and reinsurers have an incentive to reduce claims, they contribute to development by promoting risk reduction measures. Insurance can be used to manage certain risks faced by creditors and borrowers more efficiently than other financial instruments, thereby facilitating access to credit and stimulating entrepreneurial effort. Insurance also facilitates investment in higher-risk, higher-return business opportunities by helping measure and manage high-risk exposures. Investment in higher-return activities in turn contributes to higher productivity and economic growth.

More broadly within the economy, by mobilizing long-term savings insurers are an important source of long-term finance that can be invested in initiatives such as infrastructure improvements, as well as acting as a significant stimulator for the development of debt and equity markets. As prominent investors in equity markets, insurers can compel listed companies to adopt stronger corporate governance measures and greater transparency. In summary, according to Brainard (2008), “The net result of well-functioning insurance markets should be better pricing of risk, greater efficiency in the overall allocation of capital and mix of economic activities, and higher productivity.”<sup>1</sup>

An important item missing from the literature thus far is the possible specific contribution of microinsurance to the deepening and strengthening of the insurance industry in general. Insurance industries in developed countries were largely built on a strong foundation along retail lines, perhaps with roots that can be traced back to friendly societies or industrial life assurance. The insurance sectors

<sup>1</sup> For more details on the impact of insurance development on economic development, see USAID (2006), Brainard (2008) and Skipper (1997).

in many emerging and developing economies evolved in the second half of the 20th century, and focused largely on corporate clients, with little effort made to build the infrastructure required for retail or personal lines.

Since many countries have missed out on this initial stage of insurance development and leapfrogged to more sophisticated lines, the insurance sectors may be thin and not well developed. Microinsurance, however, can provide them with an opportunity to rebuild from the bottom up and create a foundation of retail insurance, and ultimately make a stronger contribution to the country's general economic development. It is interesting to note that developing countries in which the insurance industry did have a strong retail base, such as India and South Africa, have emerged among the microinsurance leaders.

The contribution of microinsurance to the community and the country extends beyond its involvement in deepening the insurance industry. As microinsurance lies at the intersection between social protection and financial inclusion – two critical agenda items for the G-20 – its contribution to economic development will be greatest where these forces are well coordinated. For example, public-private partnerships seem to be an important way to get the best of both worlds, although it is easier said than done. Similarly, as suggested by Dercon (2011), cash transfers that provide a steady income stream for low-income households could be supplemented by insurance to help those same households to manage risk more efficiently as well.

Microinsurance is unlikely to break the cycle of poverty by itself, but it is a valuable tool in the poverty alleviation toolkit. When coupled with risk prevention and mitigation, and supplemented by other risk-managing financial services such as savings and emergency loans, insurance can play a critical role at multiple levels to efficiently manage risks, reduce vulnerability and, it is hoped, contribute to poverty alleviation.

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### Target audience

As described in Chapter 1, for microinsurance to succeed it requires the commitment of a host of stakeholders. Without the cooperation of insurance professionals, distribution channels, policymakers and supervisors, technical assistance and service providers, donors, community organizations and academics, it would hardly be possible to provide sustainable insurance solutions to huge numbers of low-income households. This book is therefore intended for persons from any of these groups who want to learn from experience and are keen to glean insights into how to provide viable and valuable cover to the working poor.

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## Structure of the book

This book is organized into eight parts. Part I highlights major developments in the sector, explains the relationship between insurance and social protection, describes the potential impact of microinsurance, and considers the challenge of providing microinsurance in light of climate change. In particular, Chapter 1 provides an overview of the contents of the book by discussing the main trends and referring to other chapters for more details.

Parts II through IV cover specific lines of business: health, life, and agricultural and livestock insurance. Part V summarizes important topics specific to the low-income market such as the psychology of microinsurance, consumer education and client value. It also explores the design of microinsurance for specific target groups, notably women and migrants. Part VI considers the profitability of microinsurance for the insurance industry and the experience of commercial insurers in serving the low-income market. This part of the book also describes how to price microinsurance products with limited data and provides a detailed analysis of microinsurance in India, which is a bastion of innovation and a beacon for government involvement. Part VII focuses on distribution and intermediation, and the book concludes with Part VIII, which provides information on the infrastructure necessary for microinsurance to succeed, including technology, conducive regulations and appropriate consumer protection.