

Summary

Microinsurance Conference 2008

5–7 November 2008,
Centro De Convenciones y Exposiciones
Cartagena, Colombia



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Session 5 – New issues in microinsurance policy

S. Ramanathan, World Bank, USA

Insurance and conditional cash transfers (CCTs) - Covering risks to enable asset accumulation by the poor

Recent research reveals that in Kenya, 19% of households in western villages moved out of poverty through poverty alleviation projects, while another 19% dropped below the poverty line due to idiosyncratic shocks (Krishna et al). The example highlights that a single event can set a household back for many years, as it tries to recover through informal and expensive coping mechanisms. So, there is a need to develop solutions to tackle the problem of the poorest households resorting to expensive risk mitigation strategies in the onset of such shocks. Though Microinsurance has proven to be a commercially feasible solution for the productive poor, it cannot compensate for the vulnerability of the poorest, as the poorest lack a regular flow of income. So the solution lies in combining insurance with government run CCT programs, as the former will provide income protection and the latter ensures consumption smoothing. Such a combination ensures the poorest will comply with the conditions of the cash transfer even at the onset of a shock, as insurance will be compensating the loss in income arising due to the shock. For example – beneficiaries will not take children out of school, to save on school fees and force them to work as day labourers for low wages or food.

The idea behind bundling insurance with CCTs is to help people graduate to the next level where they can begin taking micro loans for asset development and with insurance, this path to asset creation and risk taking will be far smoother and faster. The long-term objective is to help link these beneficiaries to microfinance institutions which can help them build assets through Microcredit, protect those assets through Microinsurance, and dramatically improve the household's welfare over time.

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Currently, discussions are ongoing with 2 of the world's prominent and largest CCT programs, Mexico's Oportunidades and Brazil's Bolsa Familia Program. We have written a proposal to do action-research with these 2 programs which reaches out to approximately 5 and 13 million households. The proposal entails –

1. Determining the relevant product through market research (finding reasons for beneficiaries dropping out of CCT programs)
2. Determining the appropriate delivery channel and institutional structure for premium collection and payment of claims
3. Conducting a pilot to test the model and do impact evaluation of the pilot
4. Develop materials for client education and transfer requisite capacities to intermediaries

The conference will offer a good platform to present the following aspects:

- CCT-Insurance Supply chain – function chain, actors and their roles
- How can the Private Sector Insurance Companies be involved?
- Which actors in the supply chain require assistance, what type, and who can best assist?
- What type of intermediaries could be involved in premium collection and payment of claims and how to incentivize the intermediaries?
- Possible channels for client education

Key messages:

- Combination of CCT programs and Insurance in Mexico & Brazil could possibly protect roughly 5 to 13 million households living below poverty line
- Insurance bundled with CCT = Income + Consumption Protection
- Combination prevents the poorest from resorting to expensive risk mitigation options like decapitalizing their physical and human assets
- Path out of poverty and path to asset creation, helping poorest graduate to microfinance and risk taking

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