

**New Issues in Microinsurance Policy – Session 5  
Microinsurance Conference 2008, Cartagena**

**Covering Risks to Enable  
Asset Accumulation by the  
Very Poor**

**C.S. Ramanathan  
Latin American & Caribbean Region,  
The World Bank**

**November, 2008**

# Conditional Cash Transfer Programs Across South and Central America



# What is Conditional Cash Transfer (CCT)?

- “CCT programs pay recipients in exchange for an action that brings private behavior closer to the social optimum” (Alain de Janvry, 2004)
- Consumption protection for the poor household
- Builds human capital, promotes children’s education
- Conditions can include ...
  - Health visits for family
  - Nutrition check-ups for children, nursing and pregnant women
  - Enrollment and attendance in schools for children aged 7-17

# Regional Leaders and Impact of CCTs

- **Mexico** – 5 million families, \$35 per month

- **Brazil** – 11.1 million, \$7-\$45 per month

- **Colombia**

- 1.7 million families, \$16 per month per child

- **Health and Nutrition** –

- 0-5 years – 12% lower incidence of illness in Mexico

- **School Enrollment** –

- 8% reduction in school-drop-out rates in Brazil

- **Household Consumption**

- 20% increase in rural and 10% in urban areas in Colombia

# Why Bundle CCT & Insurance?

- Achieve sustainable human capital gains
- Help beneficiaries graduate from a subsidized CCT program
- Government budgets limited in funding, time
- CCTs are sufficient for meeting household consumption only
- CCTs **not** designed to protect households from shocks  
(death, disability, illness, floods...)
- CCTs **not** designed to build productive assets



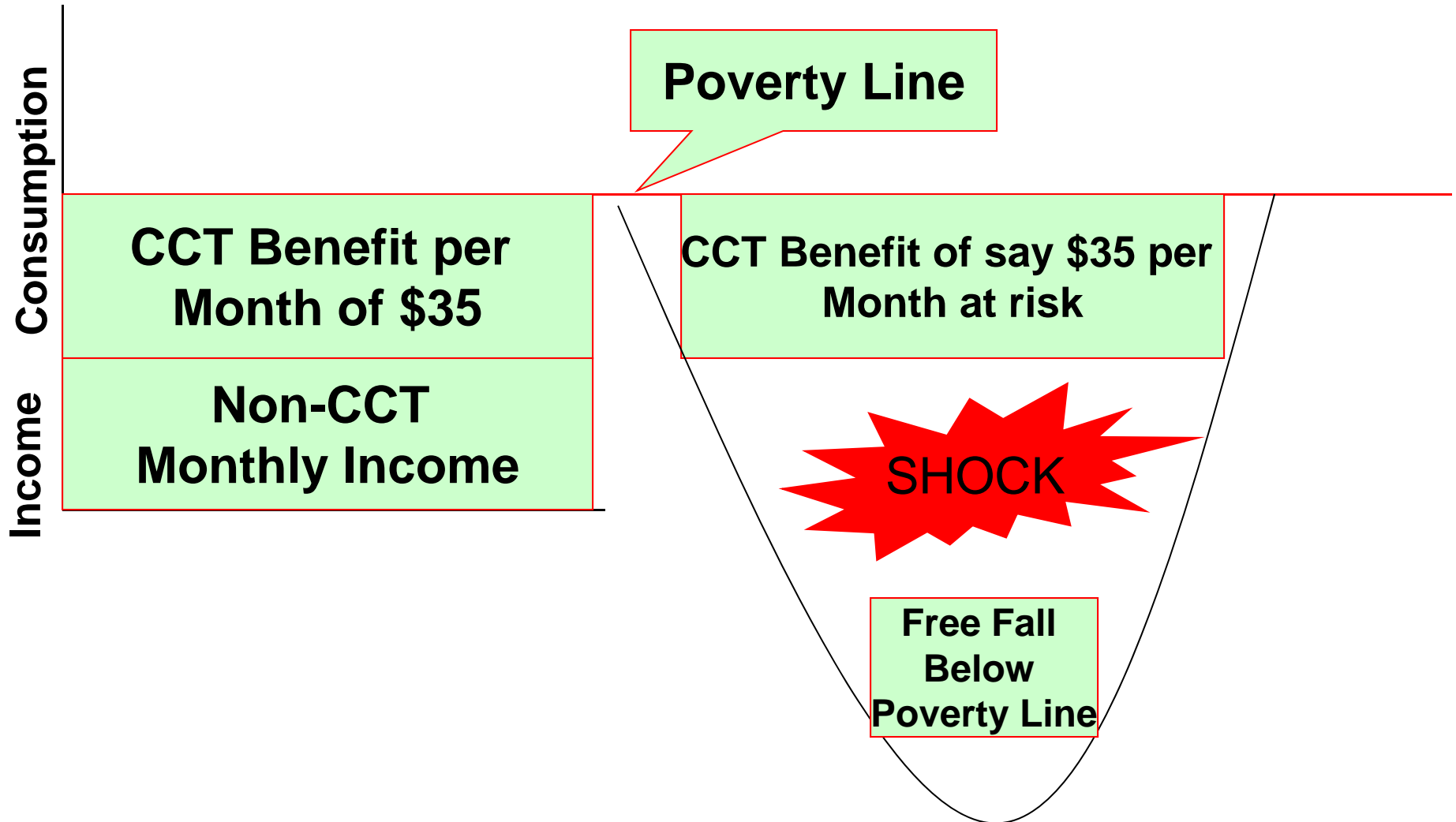
# Research Results: CCTs without Insurance leads to Asset Depletion



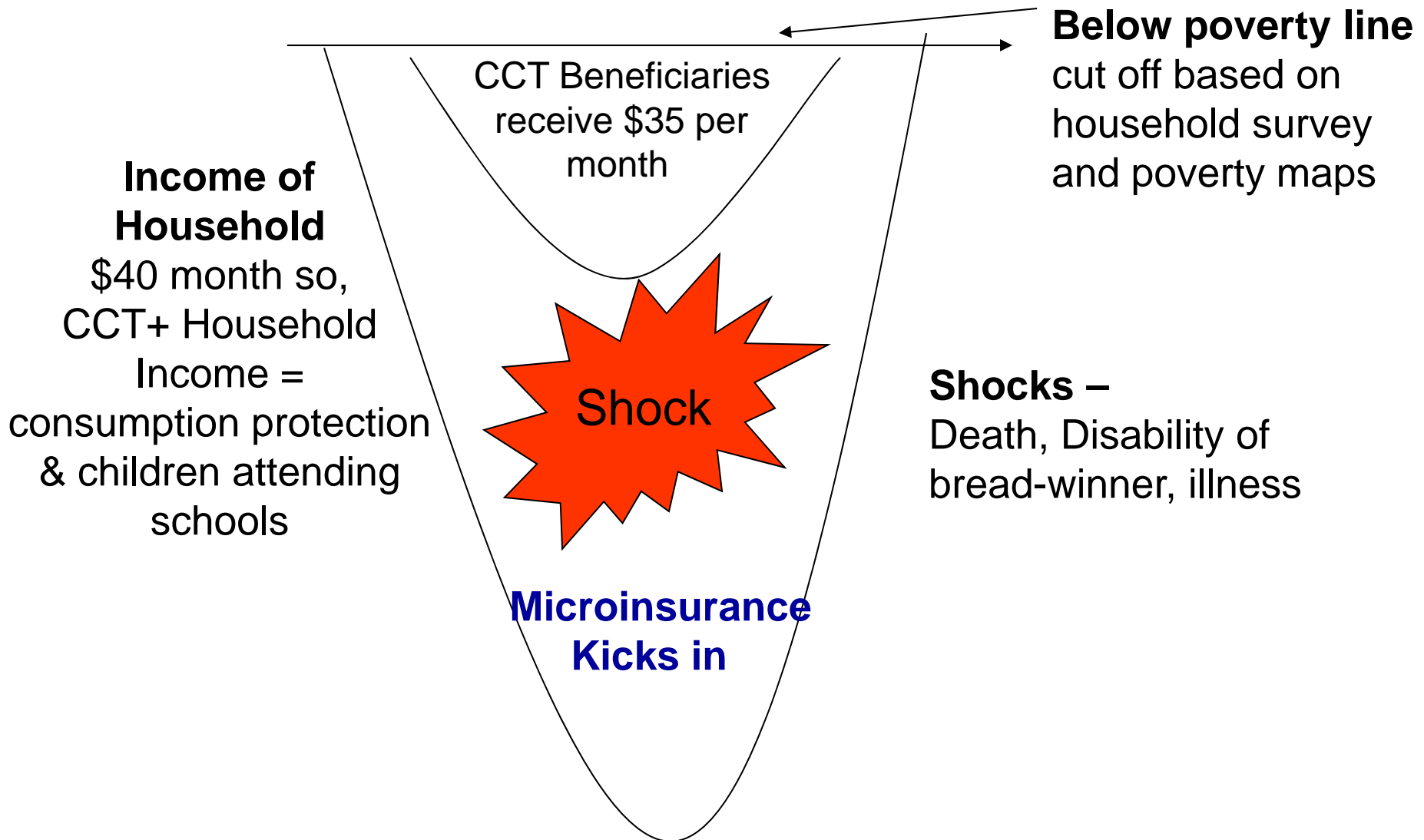
- 150 million people every year face financial catastrophe from paying for health services (Theresa Braine, 2006)
- Probability of consistent enrollment drops by 23%, if child misses a semester (Alain De Janvry et al, 2005)
- Child whose parent has recently died is twice as likely to drop out (Gertler et al, 2002)
- Kenya - 19% of households in Western villages fell into poverty due to idiosyncratic shocks (Krishna et al, 2004)

# Shocks = Short term Sacrifices

## Asset liquidation, less consumption, drop-outs



# CCT + Insurance = Consumption + Income Protection





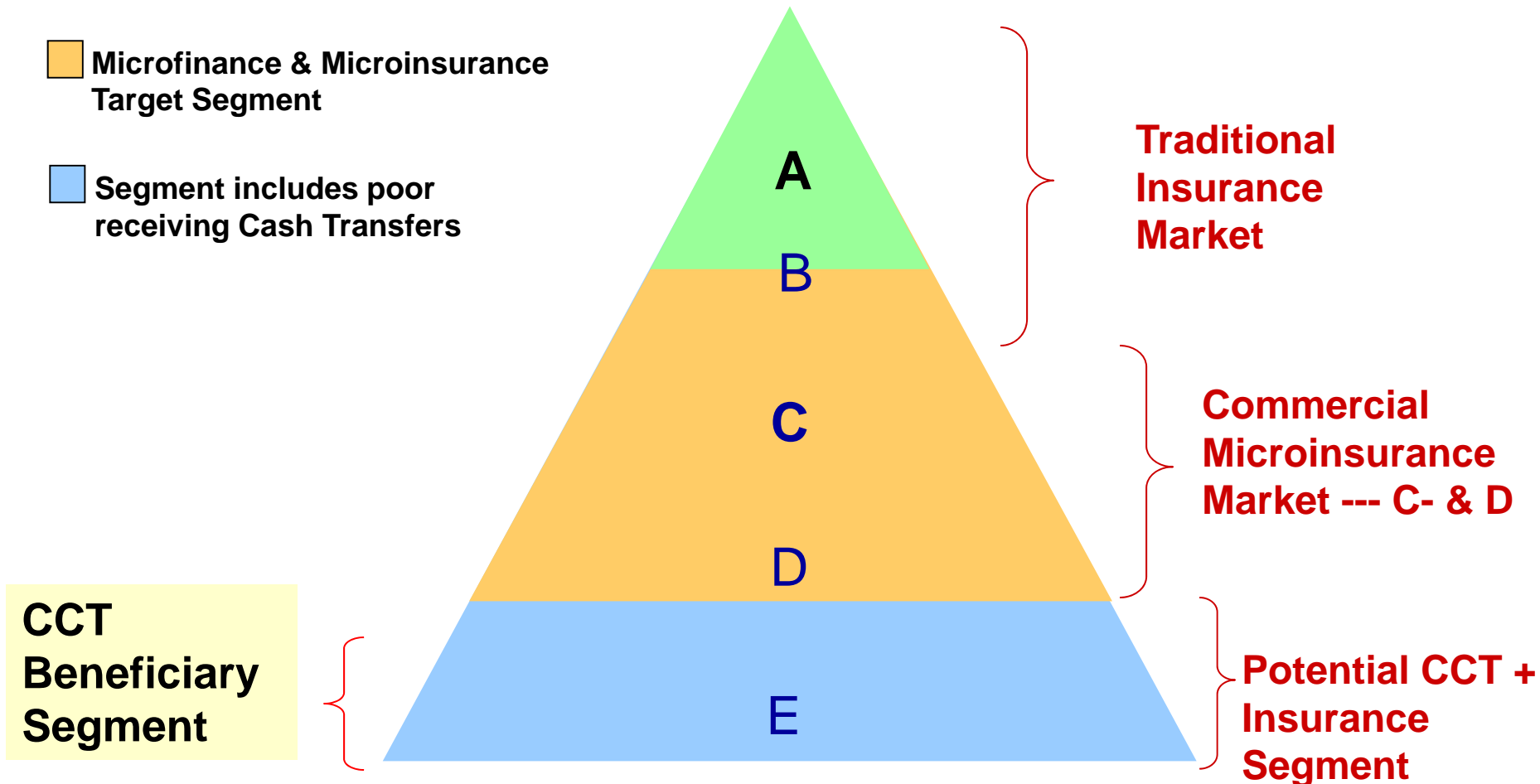
# CCT Beneficiary as Insurance Market Segment

Can Access Higher Level Financial Services –  
Traditional Insurance Clients

Microfinance & Microinsurance  
Target Segment

Segment includes poor  
receiving Cash Transfers

Ex-ante risk management  
is most expensive at BOP



# Advantages of CCT for Insuring the Poor

**Scale**

**Effective Targeting of Households**

**Massive Outreach**

**Unique Identification System to Validate CCT Beneficiary**

**Efficiency**

**Established Distribution Network for Payments**

**Robust Information System**

**Use of Technology for Automatic Payment**

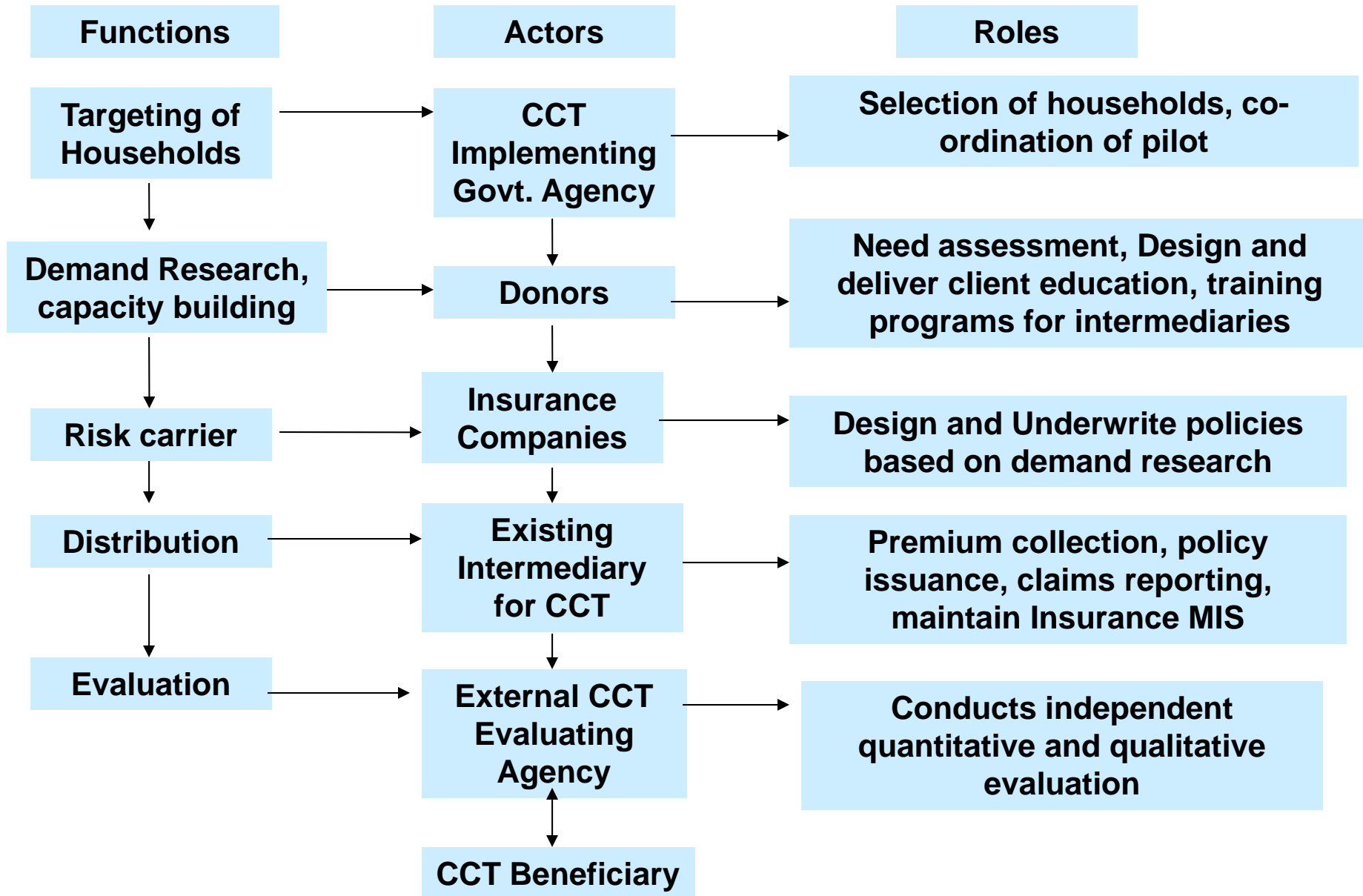
**Control**

**Established network of coordinators at the local level**

**Effective Compliance Monitoring and Control Unit**

**Implemented By Experienced Government Agencies**

# CCT & Insurance -- Actors & Roles



# CCT & Insurance Pilot -- Operational Details

- Insured -- Household Income Earners
- Products – Based on CCT beneficiary's risk priorities  
(probably death, disability, wage loss due to illness)
- Premium – Two options –
  - Partly subsidized by Govt. and partly paid by the CCT beneficiary
  - Increase the transfer amount, CCT beneficiary pays entire premium  
(for example – Guayaquil, Ecuador)
- Promotion – Use existing channels used to promote compliance to CCT conditions like lottery kiosks, public meeting places, community centres

# Operational Solutions for CCT/Insurance Pilot

- Targeting – Mandatory product
- Premium Collection & Claims Payment – during transfer payment
- Insurance processes – Joint Service Agreement and performance based contract fees with intermediary
- Client education – Measure level of insurance product awareness, number of claims filed and awareness of settlement
- Fraud – Independent auditors monitor and control insurance fraud

# Essential Factors for Success of A Pilot



- Govt's CCT Agency should coordinate pilot and liaise with all stakeholders
- Insurance Companies should underwrite
- Consultation with CCT beneficiary is critical for offering an appropriate product at affordable price
- Messages on CCT and Insurance should be clearly differentiated

# What is the Role of Donors?

## ■ Provide Technical Assistance in

- Demand Research, Product Design
- Design and assist in Delivery of Client education and Capacity building programs

## ■ In Pilot -- ensuring clients are

- Consulted on their ability to pay premiums
- Satisfied that products match their risk priorities
- Assured of recourse in case of unsatisfactory handling of valid claims



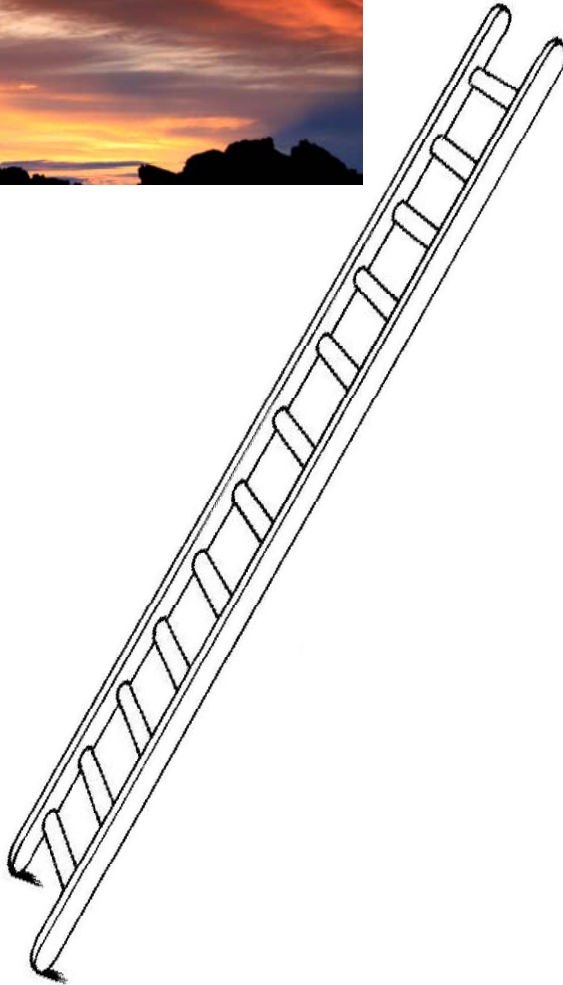
# Policy Challenges



- **Regulatory issues:** Can unlicensed CCT intermediaries promote, distribute and service insurance contracts?
- **Incentives to Insurance Companies:** Can Govt. share the cost of distribution?
- **Legal Issues:** Does premium deduction from CCT require legislative changes?
- **Service Provision:** Under what conditions should the Govt underwrite the insurance contract?



# Four Steps To Graduation!



**Step 4 – Offer Access to Microcredit and Micro savings**

**Step 3 – Offer Access to skills training, Business advice and information on Credit and Savings institutions**

**Step 2 – Add Insurance to protect Income of the CCT Beneficiary**

**Step 1 – Offer CCT to protect the Consumption of the CCT household**



THANK YOU