



Munich Re
Foundation
From Knowledge
to Action

CGAP WORKING GROUP ON
MICROINSURANCE



International
Labour
Office
Geneva

Protecting the poor

A microinsurance compendium

Edited by
Craig Churchill



Protecting the poor
A microinsurance compendium

Protecting the poor

A microinsurance compendium

Edited by
Craig Churchill



**Munich Re
Foundation**
From Knowledge
to Action

CGAP WORKING GROUP ON

MICROINSURANCE



International
Labour
Office
Geneva

International Labour Office, CH-1211 Geneva,
Switzerland
www.ilo.org
in association with
Munich Re Foundation
80791 München,
Germany
www.munichre-foundation.org

Copyright
© International Labour Organization 2006
First published 2006

ISBN 978-92-2-119254-1 (ILO)
Munich Re Foundation order number
302-05140

Cover photo: M. Crozet, ILO

Printed in Germany

ILO Cataloguing in Publication Data: micro-
insurance, life insurance, health insurance, low
income, developing countries. 11.02.3

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to the ILO Publications (Rights and Permissions), International Labour Office, CH-1211 Geneva 22, Switzerland, or by email: pubdroit@ilo.org. The International Labour Office welcomes such applications.

Libraries, institutions and other users registered in the United Kingdom with the Copyright Licensing Agency, 90 Tottenham Court Road, London W1T 4LP [Fax: (+44) (0)20 7631 5500; email: cla@cla.co.uk], in the United States with the Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923 [Fax: (+1) (978) 750 4470; email: info@copyright.com] or in other countries with associated Reproduction Rights Organizations, may make photocopies in accordance with the licences issued to them for this purpose.

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office or Munich Re Foundation of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office or Munich Re Foundation, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland (pubvente@ilo.org or www.ilo.org/publns). Catalogues or lists of new publications are available free of charge from the above address

Contents

Acknowledgements	xiv
Table of Acronyms	xvii
Introduction	I
<hr/>	
Part 1 Principles and practices	11
<hr/>	
1.1 What is insurance for the poor? (Craig Churchill)	12
1 Defining microinsurance	12
2 The two faces of microinsurance	15
3 What a difference three words make	22
<hr/>	
1.2 The demand for microinsurance (Monique Cohen and Jennefer Sebstad)	25
1 Managing risk	26
2 The importance of understanding the demand for microinsurance	29
3 Current coping strategies: Strengths and weaknesses	30
4 Opportunities for microinsurance	37
5 Conclusion	44
<hr/>	
1.3 The social protection perspective on microinsurance (Christian Jacquier, Gabriele Ramm, Philippe Marcadent and Valérie Schmitt-Diabate)	45
1 Introduction	45
2 What is social security? What is social protection?	47
3 What is microinsurance?	52
4 Potential and limitation of microinsurance as a social protection mechanism	53
5 How can microinsurance be used to extend social protection?	55
6 Conclusion	62
<hr/>	
Part 2 Microinsurance products and services	65
<hr/>	
2.1 Challenges and strategies to extend health insurance to the poor (Ralf Radermacher, Iddo Dror and Gerry Noble)	66
1 Product manufacturing	67
2 Product sales	81
3 Product servicing	86
4 Maintenance of long-term stability	89
5 Conclusion	93
<hr/>	
2.2 Long-term savings and insurance (James Roth, Denis Garand and Stuart Rutherford)	94
1 Providing savings to the poor	94
2 Long-term savings and insurance products for the poor	97
3 Key issues in offering long-term savings and insurance	103
4 Conclusions	108

2.3	Savings- and credit-linked insurance (<i>Sven Enarsson, Kjell Wirén and Gloria Almeyda</i>)	111
1	Loan-linked products	112
2	Savings-linked insurance	124
3	Product design and delivery issues	126
4	Conclusions	128
2.4	Meeting the special needs of women and children (<i>Mosleb Ahmed and Gabriele Ramm</i>)	130
1	Special risks affecting women and children (girls and boys)	130
2	Microinsurance to address the special needs of women and children	134
3	Policy tasks to improve the strategic situation of women and children	142
4	Conclusions	144
Part 3	Microinsurance operations	145
3.1	Product design and insurance risk management (<i>John Wipf, Dominic Liber and Craig Churchill</i>)	146
1	Market research	147
2	Eligibility	150
3	Terms and payment options	154
4	Benefits	159
5	Risk management and claims controls	168
6	Conclusions	173
3.2	Marketing microinsurance (<i>Craig Churchill and Monique Cohen</i>)	174
1	Main marketing messages	175
2	Marketing techniques	181
3	After-sales service	192
4	Marketing and mandatory insurance	194
5	Conclusion	195
3.3	Premium collection: Minimizing transaction costs and maximizing customer service (<i>Michael J. McCord, Grzegorz Buczkowski and Priyanka Saksena</i>)	197
1	Modes of premium collection	197
2	Collection frequency and timing	205
3	Client considerations	207
4	Premium collection controls	213
5	Conclusion	214
3.4	Claims processing (<i>Michael J. McCord and Richard Leftley</i>)	216
1	Introduction	217
2	Claims notification	220
3	Settlement	226
4	Controls	231
5	Claims considerations in product design	235
6	Conclusions	237
3.5	Pricing microinsurance products (<i>John Wipf and Denis Garand</i>)	238
1	Database design requirements for pricing (and sound microinsurance management)	239
2	Pricing components, key factors and methodology	245
3	Modelling techniques	252
4	Conclusions	253

3.6 Risk and financial management (<i>Denis Garand and John Wipf</i>)	254
1 The risks inherent in insurance products	254
2 Capital requirements	261
3 Reserves	261
4 Reinsurance	263
5 Investment management	265
6 Profit distribution	267
7 Conclusion	269
3.7 Organization development in microinsurance (<i>Craig Churchill and Richard Leftley</i>)	270
1 Organizational structure: Where does microinsurance fit in?	271
2 Recruitment: Where to access appropriate expertise	274
3 Training	279
4 Compensation	280
5 Institutional culture	285
6 Conclusions	286
3.8 Governance (<i>Zahid Qureshi</i>)	288
1 Governance in microinsurance	288
2 Board composition and expertise	290
3 The foundation stone	293
4 Microinsurance governance in practice	295
5 Conclusions	305
3.9 Loss control (<i>Zahid Qureshi and Gerry Noble</i>)	307
1 A retrospective look at loss prevention	307
2 Converging interests	308
3 Pinpointing prevention	310
4 Practising prevention	312
5 Minimization: A stitch in time	315
6 Evaluating the return on investment in prevention	317
7 Conclusions	320
3.10 Performance indicators and benchmarking (<i>Denis Garand and John Wipf</i>)	321
1 Marketing and distribution	322
2 Financial management and viability	327
3 Efficiency and client value	329
4 Investment management	332
5 Conclusions	333
Part 4 Institutional options	335
4.1 Cooperatives and insurance: The mutual advantage (<i>Klaus Fischer and Zahid Qureshi</i>)	336
1 Introduction	336
2 What is a mutual insurer?	341
3 The cooperative difference	342
4 Insurance development models and stages	344
5 Insurance products offered under the cooperative network model	345
6 Why mutuals develop networks and how they work	347
7 Advantages and disadvantages of the model	351
8 Conclusion	356

4.2	The partner-agent model: Challenges and opportunities	
	<i>(Michael J. McCord)</i>	357
1	Why a partner-agent model?	358
2	How the partner-agent model works	359
3	The good and the bad	370
4	Advantages and disadvantages	372
5	Conclusions	376
4.3	The community-based model: Mutual health organizations in Africa	
	<i>(Bénédicte Fonteneau and Bruno Galland)</i>	378
1	What is a community-based model?	379
2	Why was/is this approach implemented in West Africa?	382
3	What is the target group of the community-based model?	384
4	Do MHOs function (well) and make a significant impact?	385
5	What are the origins of the problems?	393
6	What is the added value of this model?	398
7	Conclusion	399
4.4	Institutional options for delivering health microinsurance	
	<i>(Ralf Radermacher and Iddo Dror)</i>	401
1	Institutional options	401
2	Value, interests and conflicts in the insurance business process	415
3	Conclusion	422
4.5	Beyond MFIs and community-based models: Institutional alternatives	
	<i>(Richard Leftley and James Roth)</i>	424
1	Risk-carrying alternatives	425
2	Administrative alternatives	428
3	Distribution alternatives	433
4	Conclusions	438
4.6	Retailers as microinsurance distribution channels	
	<i>(James Roth and Doubell Chamberlain)</i>	439
1	Why retailers? Which retailers?	439
2	Microinsurance distribution/Product combinations for retailers	441
3	Conclusions	449
4.7	Microinsurance: Opportunities and pitfalls for microfinance institutions	
	<i>(Craig Churchill and James Roth)</i>	452
1	Institutional arrangements	453
2	The type of insurance	561
3	Conclusions	467
Part 5	The role of other stakeholders	469
5.1	The role of donors	470
	<i>(Alexia Latortue)</i>	
1	An analytical framework	471
2	Donor requirements to effectively support microinsurance	472
3	Types of donor support for microinsurance	480
4	Conclusion	487
5.2	An enabling regulatory environment for microinsurance	
	<i>(Martina Wiedmaier-Pfister and Arup Chatterjee)</i>	488
1	Background	489
2	Barriers in existing regulatory frameworks	494
3	Country experiences – preliminary insights	500
4	Conclusions	504

<hr/>		
5.3	The promotional role of governments (<i>Sabine Trommershäuser, Roland Lindenthal and Rüdiger Krech</i>)	508
1	Policy-making, participation and consensus-building	509
2	Creating an enabling environment	511
3	Strengthening institutions	516
4	Providing financial assistance	519
5	Concluding remarks	522
<hr/>		
5.4	The role of insurers and reinsurers in supporting insurance for the poor (<i>David M. Dror and Thomas Wiechers</i>)	524
1	The value proposition of reinsurance	525
2	Involvement of commercial insurers and reinsurers in microinsurance	528
3	What part of this value proposition can insurers and reinsurers deliver?	533
4	Recommendations	540
5	Conclusion	542
<hr/>		
5.5	The provision of technical assistance (<i>Richard Leftley and Richard Lacasse</i>)	545
1	Why is technical assistance required?	546
2	What does a TA provider do?	547
3	Who provides microinsurance technical assistance?	550
4	Conclusion: Providing quality technical assistance	556
<hr/>		
Part 6	Conclusions	563
<hr/>		
6.1	Strategies for sustainability (<i>Craig Churchill and Denis Garand</i>)	564
1	Limit benefits	565
2	Focus on efficiency	570
3	Diversify income sources	576
4	Good management	580
<hr/>		
6.2	The future of microinsurance (<i>Felipe Botero, Craig Churchill, Michael J. McCord and Zahid Qureshi</i>)	583
1	Microinsurance customers of the future	585
2	Microinsurance providers of the future	588
3	The regulatory landscape	595
4	The environment for microinsurance	597
5	Embracing the future	600
<hr/>		
	Appendix I: Description of microinsurance providers	604
	Appendix II: About the authors	620
	Bibliography	626
	Index	635

List of tables

1	Microinsurance providers and products	6
2	Priority risks in selected countries	27
3	Coping strategy by risk	32
4	Examples of informal group-based insurance systems	34
5	Test for an insurable risk	38
6	Typology of microinsurance linkages	58
7	Overview of product manufacturing tasks and features	81
8	Overview of product sales tasks and features	85
9	Overview of product servicing tasks and features	89
10	Some key ratios of health microinsurers	92
11	Overview of the tasks to be undertaken to maintain long-term stability	93
12	Two insurers with endowment products	100

13	CARD MBA's loan protection plus family funeral insurance	117
14	Different benefit classes for minimum/maximum premiums at Yasiru	121
15	Market coverage of selected voluntary life insurance products	122
16	VimoSEWA's coverage and price in rupees	138
17	Benefits of LIC's Janashree Bima Yojana	160
18	Benefits from UIIC's UniMicro insurance scheme	162
19	Benefits of La Equidad's <i>Amparar</i> microinsurance product	166
20	Coinsurance and payment ceiling of health microinsurers	170
21	Benefit amounts at CARD MBA	172
22	Rolling admission versus annual campaign	189
23	Marketing checklist for microinsurance managers	195
24	Comparison of premium collection modes	204
25	A sample of claims durations	230
26	Evolution of life mortality rate at VimoSEWA	247
27	Claims experience of VimoSEWA's child benefit	252
28	Potential effect of investment mismatch on CARD's Provident Fund – An illustration	267
29	Average monthly earnings for frontline staff (US\$)	281
30	Commissions on long-term policies at ALMAO and Tata-AIG	282
31	Non-life and life insurance loss prevention	311
32	Improved service enhances retention at VimoSEWA (India)	326
33	Selected examples of net income	328
34	Expense and claims ratios for selected schemes	331
35	Rating of microinsurance schemes – An illustration	334
36	Case studies that correspond to the cooperative network model	337
37	Insurance products offered by SACCO networks	347
38	ASA's cost per policy	367
39	ASA's profit/loss per policy	368
40	Performance of four microinsurance schemes in Zambia	368
41	Advantages and disadvantages to the agent compared to self-insuring	373
42	Advantages and disadvantages for an insurer	374
43	Advantages and disadvantages for low-income policy-holders	375
44	A comparison of premiums and benefits for selected MHOs	388
45	Basic motivations and primary interest through the business process	420
46	HTG funeral insurance product	446
47	Does self-insurance provide greater client value?	459
48	Definition of microinsurance in India	501
49	Partnership factors for an insurance or reinsurance company	541
50	Partnership factors for a microinsurance institution	541
51	Advantages and disadvantages of long-term, on-site TA support	550
52	Continuing challenges that limit the expansion of microinsurance	584
53	Process automation transforms insurance operations	592

List of figures

1	Janus: The two faces of microinsurance	16
2	Impact of shocks on household income and assets	25
3	The impact of risks	28
4	The locus of microinsurance	46
5	A dynamic approach to extending social protection through microinsurance	63
6	Health insurance product design	67
7	Claims model 1: Insurer pays healthcare provider (third-party payment)	75
8	Claims model 2: Integrated healthcare and insurance provider (internal financial transaction)	76
9	Claims model 3: Insurer reimburses clients' out-of-pocket healthcare expenses	77
10	Daughter's wedding insurance plan: Delta Life	176
11	Marketing brochure: Yeshasvini	178
12	Guaranteed savings brochure: TUW SKOK	179

13	Three-step marketing process	181
14	Microinsurance drop-outs and access to microcredit	211
15	Typical claims settlement process for Madison's microinsurance product	218
16	The claims process at UMSGF	219
17	Microcare and Opportunity International claim form	224
18	CARD MBA timing of claims	234
19	Kharif Hungama sales prizes	284
20	Organizational chart of Tata-AIG	303
21	Illustrating Grameen's 16 decisions	313
22	The circular logic of customer retention	325
23	Distribution of microinsurance products in the SACCO network model	338
24	A mutual network structure with its portfolio of functional subsidiaries	348
25	The MHO system	396
26	Types of health insurance provision	402
27a	The partner-agent model	405
27b	The partner-agent model with TPA	405
28	The charitable insurance model	409
29	The provider-driven model	411
30	The community-based/mutual model	414
31	Three components of insurance provision	425
32	Yeshasvini's claim settlement process	432
33	Micro-agents, CRIGs and NGOs in the premium-collection process	435
34	An analytical framework for donor support for microinsurance	471
35	The Aid Effectiveness Star	473
36	The what, who and how of microinsurance technical assistance	483
37	The RIMANSI model of technical assistance to MBAs	555
38	Striking a balance: The microinsurance challenge	564
39	Perspectives on the future	583

List of boxes

1	Microinsurance and the MDGs	14
2	Applying Prahalad's "Twelve Principles of Innovation for BOP Markets" to microinsurance	17
3	Impact of shocks on the rich and poor in Viet Nam	27
4	Risks and risk management in Malawi	31
5	Coping strategies in Viet Nam	31
6	Risk management and over-indebtedness in Georgia	33
7	Membership in multiple burial societies	35
8	High cost of funerals in Zambia	36
9	Understanding the demand for microinsurance in Sri Lanka	41
10	We want to know more . . .	42
11	The extension of social protection through microinsurance in Colombia	56
12	Linkages in the Philippines	58
13	Developing balanced linkages in Senegal	59
14	The Global Social Trust	59
15	Cambodia's Master Plan	60
16	An integrated approach to social protection in Senegal	62
17	BRAC's three-tier approach to providing health services	76
18	CARD's foray into annuities	98
19	Grameen's deposit pension scheme (GPS)	102
20	Mis-selling in South Africa	105
21	Life insurance as an alternative to loan protection?	115
22	Illness cover in a credit life policy?	118
23	Shepherd's Sugam Fund	136
24	Outreach at Yeshasvini	140
25	Family coverage at UMSGF	141
26	Lapses at Delta Life	156
27	Flat-rate pricing for Shepherd	159

28	Mass weddings	163
29	UHC definition of family in Uganda	164
30	Creating awareness: The experience of the South African Insurance Association	182
31	UMSGF's three-tiered marketing strategy	184
32	Regional differences in Zambia	186
33	Sales challenges at TUW SKOK	189
34	Linking insurance premiums to loans	198
35	Flexible premium payments for funeral insurance in South Africa	206
36	Paying premiums in milk at Yeshasvini	208
37	Delta Life – combining microcredit and microinsurance	211
38	Claim rejection: A case of insufficient documentation in Zambia	222
39	Beneficiary frustration	223
40	Requirements for an advance payment at Columna	226
41	The many stops in claims settlement at Delta Life	229
42	Efficiencies of informal insurance	231
43	Claims adjustment and HIV/AIDS	232
44	Pricing problems	239
45	Database design problems	240
46	Importance of a health insurance MIS: Experience of AssEF	242
47	VimoSEWA's renewal rates	243
48	VimoSEWA's claims processing	244
49	Actuarial reserves and capital defined	255
50	Management risk illustrations	260
51	Organization development: How not to do it	274
52	Criteria in the selection of micro-agents at Tata-AIG	275
53	Frontline staff at CARD MBA	276
54	TUW SKOK's outsourcing model	277
55	What is corporate governance?	289
56	The four pillars of governance	290
57	Responsibilities of the board of directors	292
58	Trust is good, but control is better	297
59	Read the writing on the wall	300
60	Taking the societal perspective	309
61	Promoting well-being	312
62	Prevention through sister organizations: VimoSEWA	314
63	Coping with disaster: The Japanese experience	316
64	Microcare: Using insecticide-treated bed nets to reduce malaria-related claims	317
65	Great value placed on insurance	324
66	What doomed Confederation Life of Canada?	329
67	Why cooperative insurance suits low-income markets	338
68	Management of lapses and claims: The mutual difference	353
69	Selling an insurance concept in Ghana	360
70	Partner-agent premium collection checklist	363
71	ASA's on-again off-again relationship with the partner-agent model	370
72	Profiles of initiating organizations of MHOs	381
73	A variety of membership profiles	384
74	The target population of the rural MHOs	385
75	Union Technique de la Mutualité Malienne	389
76	Coordination Régionale des Mutuelles de Santé de Thiès	390
77	Réseau Alliance Santé, Benin	390
78	MHO performance: Some trends	392
79	The power of collective action	399
80	Nkoranza Community Health Insurance Plan	412
81	Zambuko Trust, Zimbabwe	427
82	VimoSEWA's claims committee	429
83	Retailers and rural areas	447
84	AFL/CIO's Union Privilege Scheme	448
85	Reducing the vulnerability of the poor: The case of Shepherd, India	461
86	Unleashing the catalytic role of the private sector with public subsidy	476

87	Providing support through donor guarantees	477
88	FinScope surveys: Getting to know the market	481
89	Lessons learnt the hard way: Illustrations from India	484
90	Informal insurance in South Africa	490
91	Formalization of ALMAO	492
92	Insurance cooperatives in Malawi	493
93	Capital requirements in Peru	495
94	Requirements for agents and brokers	497
95	AIG Uganda	498
96	The Insurance Ombudsman Sri Lanka	512
97	Health service providers and mutual health organizations (MHOs) in Mali	514
98	Stewardship in Guinea-Bissau	516
99	Facilitating links to UNDP in India	517
100	Subsidizing Yeshasvini Trust	520
101	Africa Re	522
102	What do microinsurers get out of reinsurance?	526
103	A short summary of the social reinsurance model	538
104	Actuarial reviews of microinsurance schemes	549
105	The 7 Cs of technical assistance	557
106	Technical assistance partnerships: DID and CIF	560
107	Management tools for microinsurance	589
108	Technological advances in banking services for the poor	593

Acknowledgements

This publication benefits from the experiences of microinsurance pioneers around the world. Without their vision and daring, we would not have any experiences or lessons to share. At the risk of omitting some key persons, I would like to acknowledge in particular the efforts of Vijay Athreye, Mirai Chatterjee, Sathianathan Deveraj, Peter Palanisamy and Dr. Devi Shetty (India), Dr. Gerry Noble (Uganda), Aris Alip and John Wipf (Philippines), Shafat Ahmed Chaudhuri and Dr Zafarullah Chowdhury (Bangladesh), Julio Medrano and Martha Bohorquez (Colombia), Grzegorz Buczkowski (Poland), William Bojórquez (Peru), Denis Garand (Canada) and Ted Weihe, Michael McCord and the experts at CUNA Mutual (USA). They are among many pioneers in the field who have sought or are seeking the perfect balance of controls and costs, coverage and price, and accessibility and affordability, to enable the poor to be insured.

This book has been prepared under the auspices of the Microinsurance Working Group of the Consultative Group to Assist the Poorest (CGAP).¹ Initiated by the ILO at the 2000 CGAP meeting in Edinburgh, the Working Group includes donors, insurers and other parties interested in coordinating donor activities as they pertain to the development and proliferation of insurance services for low-income households in developing countries. The main activities of the Working Group include developing donor guidelines, commissioning research on key issues, publishing a quarterly newsletter on microinsurance and managing the content of the Microinsurance Focus website.

¹ CGAP is a consortium of 33 public and private development agencies working together to expand access to financial services for the poor in developing countries. CGAP was founded by these aid agencies and industry leaders to help create permanent financial services for the poor on a large scale (often referred to as “microfinance”). CGAP’s unique membership structure and network of worldwide partners make it a potent convening platform to generate global consensus on standards and norms. As such, CGAP is a resource centre for the entire microfinance industry, where it incubates and supports new ideas, innovative products, cutting-edge technology, novel mechanisms for delivering financial services, and concrete solutions to the challenges of expanding microfinance (see www.cgap.org).

As one of the Working Group's research activities, this book is the culmination of a four-year process to understand good and bad practices in providing insurance to the poor. It began with a research project co-financed by DFID, GTZ (commissioned by BMZ), ILO and SIDA, and managed by the ILO. Thanks to their contributions, this project supported the production of 25 case studies of microinsurance operations around the world, which serve as the foundation on which this book is built. On behalf of the Working Group, I would like to thank the management and staff of the institutions analysed for these case studies who allowed us to dissect their products and operations and publicly air their trials and tribulations along the way to providing quality microinsurance products.

The Working Group has been actively involved in the development of this book, especially Michael McCord and Zahid Qureshi, who helped me shape the outline, identify authors and organize their contributions. In addition, Klaus Fischer, Denis Garand, Richard Leftley, Ralf Radermacher, Gaby Ramm, Jim Roth and John Wipf all made significant personal contributions to this book as authors and readers of many of its chapters. It is also important to acknowledge the valuable contribution of Ellis Wohlner, who reviewed many chapters and repeatedly challenged authors to sharpen their analysis, and Jeremy Leach who provided significant conceptual assistance.

More than one hundred people have contributed to the content of this book, directly or indirectly, by writing or reviewing chapters, or writing case studies that serve as the book's primary source of information. To acknowledge their inputs, each chapter specifies the authors and the reviewers, while Appendix I lists the case studies and their authors. Many contributors volunteered their efforts because of their commitment to improving insurance services for the poor. Dozens of others have helped with the administration, proofreading, layout and typesetting.

This book would not have been possible without the financial, technical and logistical support given by the Munich Re Foundation. Munich Re Foundation and the CGAP Working Group on Microinsurance hosted a conference in 2005 where many of the ideas and experiences were initially presented to a select audience of insurance and microinsurance experts. That forum provided an opportunity to debate ideas and to explore interpretations, significantly enhancing the quality of this output. Munich Re Foundation, especially Dirk Reinhard and Thomas Loster, has also supported the writing, editing, layout and printing of this book.

Behind the scenes, Priyanka Saskena provided significant administrative, editorial and technical assistance. Important contributions were also made by Baldwin Beenackers and Nalina Ganapathi of the ILO's Social Finance Programme, Rosemary Beattie, Charlotte Beauchamp and May Hofman Öjermark of ILO Publications, and Andrew Lawson and John Brown of Munich Re's Language Department. The Index was made by John Dawson. Last but not least, I would like to thank Bernd Balkenhol and Sarah Labaree who have allowed me to spend much more time on this project than any of us had anticipated.

Craig Churchill
Social Finance Programme
Employment Sector, ILO
Geneva, Switzerland

Table of Acronyms

AAC/MIS	Americas Association Cooperative/Mutual Insurance Societies
AD&D	Accidental death and disability
ADB	Asian Development Bank
AFL-CIO	American Federation of Labor – Congress of Industrial Organizations
AIDS	Acquired immunodeficiency syndrome
AIG	American International Group
AIMS	Automated insurance management system
AKAM	Aga Khan Agency for Microfinance
ALM	asset-liability matching
ALMAO	All Lanka Mutual Assurance Organization (Sri Lanka)
ARDCI	Agriculture and Rural Development Center of Catanduanes, Inc. (Philippines)
ASA	Activists for Social Alternatives (India)
ASCA	Accumulating savings and credit association
AssEF	Association d’Entraide des Femmes (Benin)
ATM	Automatic teller machines
BM	Bienestar Magisterial (El Salvador)
BMZ	Federal Ministry for Economic Cooperation and Development (Germany)
BOP	Bottom of the pyramid
BRAC	Bangladesh Rural Advancement Committee
CARD	Center for Agricultural Research and Development (Philippines)
CARE	Cooperative for Assistance and Relief Everywhere, Inc.
CBO	Community-based organization
CCA	Canadian Co-operative Association
CEO	Chief executive officer
CETZAM	Christian Enterprise Trust Zambia
CGAP	Consultative Group to Assist the Poorest
CHR	Community Health Fund (Tanzania)
CICS	Claims in course of settlement
CIDR	Centre International de Développement et de Recherche (France)
CIF	Centre d’Innovations Financières
CMF	Centre for Microfinance (Nepal)
CoP	Colombian Peso (currency)
CPI	Consumer Price Index
CRIG	Community rural insurance group
CRMST	Coordination Régional de Mutuelles de Santé de Thiès (Senegal)
CSG	Commissioners Standard Group
CSR	Corporate social responsibility
CU	Credit union
CUNA	Credit Union National Association (United States)
DAC	Development assistance committee
DFID	Department for International Development (United Kingdom)
DID	Développement International Desjardins (Canada)
FAQ	Frequently asked questions

FCFA	Franc de la Communauté financière de l'Afrique
FDCF	Financial Deepening Challenge Fund
FFP	Fondo Financiero Privado (Bolivia)
FHPL	Family Health Plan Limited (India)
FINCA	Foundation for International Community Assistance
FSB	Financial Services Board (South Africa)
GK	Grameen Kalyan (Bangladesh)
GLICO	Gemini Life Insurance of Ghana
GNF	Guinean Francs (currency)
GPS	Grameen Pension Scheme (Bangladesh)
GRET	Groupe d'échange et de recherche technologique (France)
GTZ	Gesellschaft für Technische Zusammenarbeit (Germany)
GUPR	Gross unearned premium reserve
HIV	Human immunodeficiency virus
IAIS	International Association of Insurance Supervisors
IBNR	Incurred but not reported claims
IBSL	Insurance Board of Sri Lanka
IC	Insurance Commissioner
ICD	International Claims Diagnostic
ICMIF	International Cooperative and Mutual Insurance Federation
ID	Identification
IDB	Inter-American Development Bank
ILO	International Labour Organization
IRDA	Insurance Regulatory and Development Authority (India)
IT	Information technology
ITN	Insecticide-treated nets
JCCU	Japanese Consumers' Co-operative Union
K	Kwacha (Malawian currency)
KSK	Kasagana Ka (Philippines)
LIC	Life Insurance Corporation of India
LKR	Sri Lankan Rupee (currency)
MAF	Mutual assistance fund
MBA	Mutual benefit association
MDGs	Millennium Development Goals
MFI	Microfinance institution
MHIB	Micro Health Insurance for Poor Rural Women in Bangladesh
MHO	Mutual health organization
MIAN	Micro Insurance Association Netherlands
MIS	Management information system
MIX	Microfinance Information eXchange
MMF	Members' mutual fund
MORO	Meeting of Reinsurance Officials
MOUS	Memorandums of understanding
MUSCCO	Malawi Union of Savings and Credit Cooperatives
NACSCU	National Association of Credit Unions (Poland)
NGO	Non-governmental organization
NHHP	Nsambya Hospital Healthcare Plan (Uganda)
NIC	National Insurance Company (India)
NUCS	National Union of Cooperative Societies (Jamaica)
OECD	Organisation de coopération et de développement économique/Organisation for Economic Co-operation and Development
OI	Opportunity International
OIBM	Opportunity International Bank of Malawi
PAD	Provision for adverse deviation
PC	Personal computer
PCC	Protected cell company
PDA	Personal digital assistants
Php	Peso (Philippines currency)
PHR	Partnership for Health Reform (USA)

PML	Probable maximum loss
POGI	PhilHealth Organized Group Interface
PPP	Public-private partnership
PRSP	Poverty-reduction strategy paper
Q.	Quetzal (Guatemalan currency)
R	South African Rand (currency)
RBC	Risk-based capital
RIMANSI	Risk Management Solutions, Inc. (Philippines)
ROSCA	Rotating savings and credit association
RS	Reinsurance Services
Rs.	Rupees (Indian currency)
SA	South Africa
SACCO	Savings and credit cooperatives
SAIA	South African Insurance Association
SBS	Seguro Basico de Salud (Bolivia)
SEEP	Small Enterprise Education and Promotion
SEWA	Self-employed Women's Association (India)
SHG	Self-help group
SI	Seguro Integral (Paraguay)
SIDA	Swedish International Development Cooperation Agency
SK	Shashtho Kormis (health paramedics in Bangladesh)
SKOK	Cooperative Savings and Credit Unions (Poland)
SMI	Seguro Materno-Infantil (Peru)
SOCODEVI	Société de Coopération pour le Développement International (Canada)
SS	Shashtho Shebikas (community health workers in Bangladesh)
SSS	Society for Social Services (Bangladesh)
STEP	Strategies and Tools against Social Exclusion and Poverty
TA	Technical assistance
TOT	Training of trainers
TPA	Third-party administrator
TPD	Total and permanent disability
TSKI	Taytay Sa Kauswagan (Philippines)
TUW SKOK	Mutual Insurance Company of Cooperative Savings and Credit Unions (Poland)
TV	Television
TYM	Tao Yeu May (Viet Nam)
UEMOA	Union économique et monétaire d'Afrique de l'Ouest
UHC	Uganda Health Cooperative
UIC	United India Insurance Company, Ltd.
UK	United Kingdom
UMASIDA	Umoja wa Matibabu Sekta Isiyo Rasmi Dar es Salaam
UMSGF	L'Union des Mutuelles de Santé de Guinée Forestière (Guinea)
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
US\$	United States Dollar (currency)
USA	United States of America
UTM	L'Union Technique de la Mutualité Malienne (Mali)
VHS	Voluntary Health Service (India)
WHO	World Health Organisation
WWF	Women's World Foundation (Colombia)
Zl	Zloty (Polish currency)
ZOC	Zone operations centres

Introduction

Low-income households are vulnerable to risks and economic shocks. One way for the poor to protect themselves is through insurance. By helping low-income households manage risk, microinsurance can assist them to maintain a sense of financial confidence even in the face of significant vulnerability. If governments, donors, development agencies and others are serious about combating poverty, insurance has to be one of the weapons in their arsenal.

Among low-income populations, risk pooling and informal insurance are not entirely new. Informal risk-sharing schemes have been around for generations, even in some of the most inaccessible places. However, these schemes are usually limited in their outreach and the benefits typically cover only a small portion of the loss. A key aspect of the interest in microinsurance is to explore ways of significantly increasing the number of poor households that have access to insurance while enhancing the benefits.

I In search of good and bad practices

To learn how to extend insurance to low-income households, the CGAP Working Group on Microinsurance launched a research project in 2003 to document the experiences of microinsurance operations around the world and identify good and bad practices.¹ This project conducted a series of case studies of insurance companies, microfinance institutions (MFIs) and community-based insurance schemes from around the world to learn about the provision of life and health insurance to the poor. While other types of insurance are also relevant for the low-income market, including property and agriculture insurance, this initiative focused on the two risks – death and illness – that are most frequently identified in demand research.

¹ SIDA, DFID, GTZ and the ILO provided support for this project.

The research focused on organizations that had at least three years of experience and covered at least 3,000 lives in order to assess their results rather than their plans. The project primarily looked at experiences in Africa, Asia and Latin America, and sought microinsurers that employed a variety of different models and delivery structures, such as:

- Partnerships between insurers and distribution agents such as cooperatives and MFIs²
- Regulated insurance companies that serve the low-income market directly
- Healthcare providers offering a financing package and absorbing the insurance risk
- Community-based programmes that pool funds, carry risk and manage a relationship with a healthcare provider
- Government-sponsored or -subsidized insurance schemes
- Self-insuring MFIs that assume the risk of offering insurance to their clients

The potential sample of microinsurance schemes that met these criteria is not extensive. Many microinsurance schemes are new or the products were only recently introduced. Most microinsurers have focused on the simplest insurance products to manage, especially credit life. After that, the volume of available microinsurance reduces as product management complexity increases. To some extent, the products most in demand in this under-served market, such as health insurance, are precisely those that are the least available.

Nevertheless, a number of appropriate organizations were identified and contacted, and they agreed to go under the microscope of (largely) external analysts. Most case studies were conducted by two-person teams that consisted of an insurance expert and a development professional who together could consider both the technical and the social aspects of extending insurance to the poor. The teams all used the same research frameworks and analysed their findings using a common case study outline to facilitate an analysis of lessons across the microinsurance schemes.³

² Throughout this book, the term microfinance institution is used to refer to any formal or semi-formal organization that has savings and/or credit transactions with low-income households, which includes microcredit NGOs, credit unions or savings and credit cooperatives (SACCOs), regulated microfinance banks and others. According to the Microcredit Summit (www.microcreditsummit.org), at the end of 2004, there were more than 3,000 MFIs around the world providing credit and other services to 92 million low-income people, of whom 66 million were among the poorest when they took their first loan.

³ There are a few exceptional case studies, structured differently in order to consider different perspectives on microinsurance. For example, ICMIF (2005), *Lessons learnt the hard way*, analyses nine insurance companies, current or former members of the International Cooperative and Mutual Insurance Federation, which all experienced difficulties in one way or another; their experiences are documented anonymously. Similarly, Leftley (2005) looks at microinsurance experiences from the perspective of a technical assistance provider, Opportunity International, which has supported numerous MFIs to negotiate partnerships with insurance companies.

In all, twenty-five case studies were conducted, analysing the experiences of more than 40 organizations that are involved in microinsurance either as a risk carrier, distribution channel or both, as summarized in Table 1. Examples from the case studies are sprinkled liberally throughout this book to illustrate lessons and recommendations. Instead of repeating the bibliographic references from these case studies, readers are instructed to take note that whenever there is an uncited reference to these microinsurance providers, the experience is drawn from the associated case study. Appendix I specifies which schemes are covered in which case studies.⁴

This book synthesizes lessons drawn from these experiences. These lessons were analysed by 38 authors with a range of backgrounds (see Appendix II for the authors' biographies) – including academics and actuaries, insurance and development professionals – most of whom participate in the CGAP Working Group on Microinsurance. The conclusions they reach and recommendations they make reflect their personal opinions and are not general recommendations from the Working Group as a whole.

Some of the findings remain inconclusive. Observant readers are likely to notice differences of opinion on a range of issues, including the usefulness of credit life insurance, the role of reinsurance, the appropriateness of endowment policies, the benefits of composite products, the enthusiasm of commercial insurers for the low-income market, the promotion of informal or unregulated insurance schemes, exclusions for pre-existing conditions, and many more.

By and large, however, despite the fact that this book covers different insurance products delivered by a variety of institutional arrangements across four continents, a clear picture of microinsurance is beginning to emerge, particularly regarding the challenges of insuring the poor as well as many of the solutions. The findings reveal that microinsurance is indeed viable, and even profitable under certain circumstances, but a number of difficulties must be overcome for it to succeed.

2 Target audience

The primary audience for this book are insurance professionals and practitioners working in the field who are currently offering insurance to low-income persons or thinking about doing so. This book was written in hopes that they would be able to learn from the experiences of those who came before, both those who have succeeded and those who have failed.

⁴ The case studies are available on:
www.microfinancegateway.org/section/resourcecenters/microinsurance

This book is also intended for persons who assist practitioners, such as technical assistance providers and donors. By having a better understanding of the challenges and potential solutions associated with the provision of insurance to the poor, it is hoped that these individuals and organizations can use their financial and human resources more effectively to expand access to insurance.

Policymakers and regulators represent a third category of readers. As a new field of activity, microinsurance often operates in an environment that was not designed for it, and which can even be characterized as hostile. By acquiring an appreciation for the key differences between insurance and microinsurance, and recognizing where microinsurance potentially fits into a broader social protection framework, regulators and policymakers can begin to craft an enabling environment to nurture and support the growth and development of microinsurance and to promote more inclusive insurance markets.

3 Structure of the book

This book is organized into six parts. The first part, Principles and Practices, defines microinsurance, provides insights into the risk-management needs of low-income households and explains the critical social protection function of microinsurance.

Part 2 summarizes lessons about specific types of products, namely health insurance, long-term life insurance and short-term insurance linked to savings and credit products. This part also explores the adaptation of insurance products to address the characteristics of women and children.

The third part of the book explores microinsurance operations in detail. It includes chapters on product design, marketing, premium collection, claims, pricing, financial and risk management, governance, organizational development and loss control. It concludes with a chapter on benchmarking that examines performance ratios of the microinsurance schemes.

Microinsurance can be delivered through a variety of institutional arrangements. Part 4 examines these arrangements to analyse the conditions in which one might be preferable to the others. These chapters consider the partner-agent model, the community-based approach, insurance companies owned by networks of savings and credit cooperatives, retailers as distribution channels, and microfinance institutions. One chapter analyses the advantages, disadvantages and conflicts of interests of various organizational arrangements for delivering health insurance.

Part 5 assesses the roles of key stakeholders, including donors, regulators, governments, insurers and reinsurers, and technical assistance providers. The book concludes with Part 6, which summarizes the strategies needed to achieve the right balance between coverage, costs and price, and provides an outlook on future developments in microinsurance.

Table 1

Microinsurance providers and products

<i>Institution – Start of microinsurance</i>	<i>Country</i>	<i>Persons covered* (year of data)</i>
Activists for Social Alternatives (ASA) – 1993	India	55,000 (2004)
All Lanka Mutual Assurance Organization (ALMAO) – 1991	Sri Lanka	50,000 (2004)
American International Group Uganda (AIG Uganda) – 1997	Uganda, Tanzania U.R., Malawi	1.6 million (2003)
Association d'Entraide des Femmes (AssEF) – 2003	Benin	2,300 (2004)
Bienestar Magisterial (BM) – 1969	El Salvador	75,000 (2003)
BRAC Micro Health Insurance for Poor Rural Women in Bangladesh (MHIB) – 2001	Bangladesh	12,000 families (2004)
CARD Mutual Benefit Association (CARD MBA) – 1994	Philippines	580,000 (2003)
Christian Enterprise Trust Zambia (CETZAM) – 2000	Zambia	5,000 (2004)
Columna – 1993	Guatemala	54,000 (2004)
La Coordination Régional de Mutuelles de Santé de Thiès (CRMST) – 1989 (first MHO)	Senegal	75,000 (2005)
Delta Life – 1988	Bangladesh	859,000 (2002)
La Equidad Seguros – 1970	Colombia	30,000 (2004)
FINCA Uganda – 1997	Uganda	37,000 (2003)
Grameen Kalyan – 1996	Bangladesh	58,000 families (2004)
International Cooperative and Mutual Insurance Federation (ICMIF)	Global	Not applicable
Karuna Trust – 2002	India	61,000 (2004)
Madison Insurance – 2000	Zambia	30,000 (2003)
MAFUCECTO – 2004	Togo	556 (2004)

* It would not be appropriate to add up these numbers to estimate the total number of persons covered by microinsurance since this is just a sample of the schemes in operation, and because it would

<i>Main microinsurance product</i>	<i>Institutional type/ Delivery model</i>
Term life (linked to credit)	MFI that switched several times between partner-agent and self-insurance
Endowment and funeral	Private-sector insurance company created by a network of credit and savings associations; an informal scheme that was licensed in 2002
Accidental death and disability (AD&D) integrated with credit life	Private-sector insurance company providing a micro-insurance product through partnerships with 26 MFIs
Health	MFI offering microinsurance in-house
Health	Employment-related scheme for a teacher's union
Health	An unregulated insurance scheme linked to an NGO healthcare provider with a network of clinics and an associated microfinance NGO
Life, integrated credit life and disability	Mutual insurance company associated with an MFI
Credit life, funeral, property	An OI-affiliated MFI that has worked with two private insurance companies to provide products
Life/disability insurance	Insurance company owned by the credit unions
Health	An apex body of mutual health organizations (MHOs)
Endowment	Private-for-profit insurance company serving the low-income market directly
Life and disability	Mutual insurer owned by credit unions (but also uses partner-agent model with an MFI)
AD&D with credit life	MFI partnering with AIG Uganda
Health	Insurance provided by healthcare provider
Not applicable	A global network of cooperative and mutual insurance companies; the experiences of nine anonymous ICMIF members are described in one case study, ICMIF (2005), <i>Lessons learnt the hard way</i>
Per diem income during hospitalization	NGO in partnership with state insurance company (NIC), follows partner-agent model
Credit life and funeral	Private insurance company partnering with 4 MFIs
Credit life	An insurance department of a credit union association

result in some double counting. For example, the numbers for TSKI and CETZAM are also included in the OI figures; similarly, the FINCA Uganda numbers are included in AIG Uganda.

<i>Institution – Start of microinsurance</i>	<i>Country</i>	<i>Persons covered (year of data)</i>
Malawi Union of Savings and Credit Cooperatives (MUSCCO) – 1980	Malawi	56,000 (2003)
Opportunity International (OI) – 2002	Global	2.7 million (2005)
Pulse Holdings Ltd. – 2001	Zambia	2,200 (2003)
Seguro Basico de Salud (SBS) – 1999-2003	Bolivia	Not available
Seguro Integral (SI) – 2002	Paraguay	15,600 (2002)
Seguro Materno-Infantil (SMI) – 1998-2001	Peru	350,000 (2001)
Shepherd – 1999	India	15,000 (2004)
ServiPerú – 1996	Peru	94,000 (2003)
Society for Social Services (SSS) – 1996	Bangladesh	27,000 families (2004)
Spandana – 1998	India	390,000 (2004)
Tao Yeu May's Mutual Assistance Fund (TYM) – 1996	Viet Nam	68,000 (2004)
Tata-AIG – 2001	India	13,000 (2005)
Taytay Sa Kauswagan (TSKI) – 2002	Philippines	330,000 (2004)
TUW SKOK – 1998	Poland	93,000 (2003)
L'Union des Mutuelles de Santé de Guinée Forestière (UMSGF) – 1999	Guinea	14,000 (2005)
L'Union Technique de la Mutualité Malienne (UTM) – 1998	Mali	40,000 (2005)
VimoSEWA – 1992	India	120,000 (2005)
Yasiru Mutual Provident Fund – 2000	Sri Lanka	24,000 (2004)
Yeshasvini Trust – 2002	India	1.45 million (2005)

<i>Main microinsurance product</i>	<i>Institutional type/ Delivery model</i>
Credit life and life savings	Credit union association operating insurance scheme for borrowers, risks managed in-house
Various savings and loan-linked covers	Provides technical assistance to an affiliate network of MFIs around the world which all use the partner-agent model; the case study considers the experiences of five MFIs.
Credit life	MFI partnering with a private-sector company, Madison Insurance (partner-agent model)
Health	Public insurance scheme linked primarily to public health-care providers
Health	Public insurance scheme linked primarily to public health-care providers
Health	Public insurance scheme linked to public healthcare providers
Life, livestock, health	MFI partnering with state insurance companies (LIC and UIIC)
Integrated health and funeral	Insurance brokerage partnering with a private insurance company
Health	Healthcare provider and MFI providing insurance in-house
Credit life, spousal death and limited asset loss	MFI offering insurance in-house (self-insurance)
Credit life with hospitalization benefit	MFI offering insurance in-house (self-insurance)
Life insurance, endowment	Private-sector insurance company using partner-agent and micro-agent models
Credit life, life	An OI-affiliated MFI in partnership with Cocolife, a private insurance company
Property, savings completion and AD&D	Mutual insurance company owned by credit union network
Health	Apex body of MHOs
Health	Apex body of MHOs
Integrated life, health and asset	A department of a trade union that has switched between the partner-agent and self-insurance models
Integrated accident, disability, life and health	Unlicensed scheme offering insurance in partnership with NGOs and a network of CBOs
Health	Unlicensed scheme collaborating with state government and cooperatives, benefits only available through a network of healthcare providers

