Report
7th International Microinsurance Conference 2011
Making insurance work for the poor

8–10 November 2011
Rio de Janeiro, Brazil

Edited by
Zahid Qureshi and Dirk Reinhard
<table>
<thead>
<tr>
<th>Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Acknowledgements</td>
</tr>
<tr>
<td>2 Agenda Day 1 morning sessions Pre-conference seminars</td>
</tr>
<tr>
<td>3 Pre-conference seminar 1 Regulation, supervision and policy</td>
</tr>
<tr>
<td>8 Pre-conference seminar 2 Academic track: Advances in methodology</td>
</tr>
<tr>
<td>13 Agenda Day 1 afternoon sessions</td>
</tr>
<tr>
<td>14 Opening: Welcome addresses</td>
</tr>
<tr>
<td>16 Keynote speech</td>
</tr>
<tr>
<td>22 Plenary 1 Is microinsurance different in Latin America?</td>
</tr>
<tr>
<td>25 Agenda Day 2 morning sessions</td>
</tr>
<tr>
<td>26 Parallel session 1 Case studies from Latin America</td>
</tr>
<tr>
<td>29 Parallel session 2 Case studies in health microinsurance</td>
</tr>
<tr>
<td>32 Parallel session 3 Expanding distribution</td>
</tr>
<tr>
<td>39 Parallel session 4 Academic track: Product design and demand for microinsurance</td>
</tr>
<tr>
<td>38 Plenary 2 Academic track: Is low take-up a rational choice?</td>
</tr>
<tr>
<td>41 Agenda Day 2 afternoon sessions</td>
</tr>
<tr>
<td>42 Parallel session 5 Technology in microinsurance</td>
</tr>
<tr>
<td>47 Parallel session 6 Workshop on success factors for PPP in microinsurance</td>
</tr>
<tr>
<td>54 Parallel session 7 Impact assessment: Methodologies, case studies and trends</td>
</tr>
<tr>
<td>58 Parallel session 8 Protecting the poor against natural disasters – case studies</td>
</tr>
<tr>
<td>61 Agenda Day 3 morning sessions</td>
</tr>
<tr>
<td>62 Parallel session 9 How to assess client value</td>
</tr>
<tr>
<td>65 Parallel session 10 Distribution and value chain case studies</td>
</tr>
<tr>
<td>67 Parallel session 11 Consumer education: How to make mass media work for insurance education</td>
</tr>
<tr>
<td>70 Parallel session 12 National strategies to increase access: A joint country process</td>
</tr>
<tr>
<td>72 Plenary 3 Round table on microinsurance in Brazil</td>
</tr>
<tr>
<td>77 Agenda Day 3 afternoon sessions</td>
</tr>
<tr>
<td>78 Parallel session 13 Developing microinsurance agents</td>
</tr>
<tr>
<td>82 Field trip – SINAF Seguros</td>
</tr>
<tr>
<td>83 Parallel session 14 Academic track: Demand</td>
</tr>
<tr>
<td>85 Parallel session 15 Case studies in pricing microinsurance products</td>
</tr>
<tr>
<td>88 Parallel session 16 National strategies – Regulatory approaches</td>
</tr>
<tr>
<td>90 Plenary 4 Round table – Challenges for policy-makers and supervisors to ensure consumer value</td>
</tr>
<tr>
<td>92 Countries represented</td>
</tr>
<tr>
<td>94 Participating organisations</td>
</tr>
<tr>
<td>96 Acronyms</td>
</tr>
</tbody>
</table>

Conference documents and presentations are available online at: www.microinsuranceconference.org/2011

Links:
Munich Re Foundation www.munichre-foundation.org
Microinsurance Network www.microinsurancenetwork.org
Acknowledgements

This report is the summary of the 7th International Microinsurance Conference that took place in Rio de Janeiro, Brazil, on 8–10 November 2011. The event was hosted by the Munich Re Foundation and the Microinsurance Network and supported by the Brazilian Confederation of Insurers (CNSeg), the Superintendency of Private Insurance (SUPEB), GIZ/BMZ and Georgia State University.

The organisers would like to thank CNSeg, especially its President Jorge Hilário Gouvêa Vieira and Executive Director Solange Beatriz Palheiro Mendes, for their outstanding support of this event. Two people deserving special mention here, since their guidance, recommendations and enthusiasm helped to make this conference a true success, are Maria Elena Bidino, Superintendent of Institutional and Consumer Affairs at CNSeg, and Eugênio Velasques, Executive Director and Head of Microinsurance at Bradesco Seguros.

The 7th International Microinsurance Conference was honoured by the presence of Stefan Dercon, Professor at the University of Oxford and Chief Economist of the British Department of International Development (DFID). His keynote speech laid the foundations for the discussions at the 22 conference workshops.

For three days, around 80 speakers and facilitators discussed innovative and sustainable microinsurance programmes, illustrated by the latest case studies and research outcomes. We would like to thank all of them for dedicating so much of their time and resources in order to share their knowledge and experience in developing risk management solutions that provide value for the low-income sector.

No fewer than 23 regulatory bodies of the insurance industry were represented – more than at any of the past conferences. This clearly signals an increasing commitment by insurance commissioners to promote financial inclusion, which is supported by guidelines for microinsurance regulation developed by the International Association of Insurance Supervisors (IAIS) and the Access to Insurance Initiative (A2ii). We would therefore like to thank Brigitte Klein, Martina Wiedmaier-Pfister, Mala Nag and their team members for their extremely valuable support of the conference throughout the years.

One of the key objectives of the International Microinsurance Conference is to share experience across different continents and discuss current practices and lessons learnt. Our thanks go to the 430 participants from 52 countries for their comments and questions and for the lively and thought-provoking discussions. On behalf of the organisers, we would like to thank the fifteen members of the conference steering committee. Without their support in identifying suitable speakers and presentations from the more than 140 proposed speeches received in the run-up to the conference, this event would not have been possible.

A special thank-you goes to the team of rapporteurs – Berber Kramer, Ricardo Tavares Pereira, Gabrielle Tomchinsky and Stefan Schmuck – led by Zahid Qureshi, for helping us gather and document key lessons and recommendations from the various conference sessions. As the style of the sessions changes, so does the style of the individual summaries. Readers, authors or organisers may not share all the opinions expressed or recommendations given – but they reflect the rich diversity of the discussions.

A conference of such magnitude needs a lot of people working behind the scenes. The organisation team – Paula Jiménez, Petra Hinteramskogler, Martina Mayerhofer, Christian Barthelt and the entire team of Idealizer – did an amazing job in organising a very special conference. A special thank-you goes to Thomas Loster, Chairman of the Munich Re Foundation, for his ongoing support of the conference project. We would also like to thank the entire team of the Microinsurance Network secretariat for their invaluable support regarding the communication and evaluation of the International Microinsurance Conference.

What comes next? The overall feedback on the conference was very positive. The conference organisers are therefore highly motivated to take up the challenge and make the 8th International Microinsurance Conference, that will take place from 6–8 November 2012 in Dar es Salaam, Tanzania, an even better event.

Dirk Reinhard, Vice-Chairman, Munich Re Foundation, Germany, Chairman of the Conference Steering Committee
Craig Churchill, Chairman, Microinsurance Network, ILO, Switzerland
Munich and Geneva, April 2012

1 — Craig Churchill, ILO/Microinsurance Innovation Facility, Switzerland.
2 — Dirk Reinhard, Munich Re Foundation, Germany.
Agenda

Day 1 morning sessions
8 November 2011

Pre-conference seminar 1

Regulation, supervision and policy
Hosted by IAIS, Microinsurance Network, Access to Insurance Initiative

Luciano Portal Santanna
Superintendent, SUSEP, Brazil

Mala Nag
Principal Administrator, IAIS, Switzerland

Martina Wiedmaier-Pfister
Policy Consultant, GIZ/BMZ, Germany

Sergio Franklin
Superintendence of Private Insurance, SUSEP, Brazil

Jacky Huma
Head of Department, FSB, South Africa

G. Prabhakara
IRDA, India

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

Manuel Lobato Osorio
Head of the Insurance, Pensions and Social Security Unit, Ministry of Finance and Public Credit, Mexico

Joselito Almario
Deputy Executive Director, NCC, Philippines

Nymikeh Kyiamah
Commissioner of Insurance, NIA, Ghana

Doubell Chamberlain
Managing Director, Cenfri, South Africa

Brigitte Klein
Head of Sector Project, GIZ, Germany

Pre-conference seminar 2

Academic track: Advances in methodology
Hosted by Georgia State University/CEAR

Glenn Harrison
Director, CEAR, USA

Jimmy Martinez Correa
Doctoral student, CEAR, USA

Stefan Dercon
Professor of Development Economics, University of Oxford, United Kingdom
The third joint Policy Seminar of the Access to Insurance Initiative, the Microinsurance Network (MiN) and the International Association of Insurance Supervisors (IAIS) brought policy-makers, regulators and supervisors from 23 countries together. It was organised back-to-back with the International Microinsurance Conference. Regulators and supervisors deliberated the opportunities and challenges for microinsurance policy, regulation and supervision, with a specific focus on proportionality and tapping lessons learnt so far in developing enabling policy and regulatory frameworks.

The seminar began with an acknowledgement that the theme, in addition to being important, is very topical in Brazil, as SUSEP (the Superintendent of Private Insurance) is about to regulate microinsurance through a microinsurance resolution.

The IAIS aims to promote effective supervision in order to maintain fair, stable and safe insurance markets and promote consumer protection. Simply setting standards is not enough; there is also a need to build supervisory capacity. The recently adopted new Insurance Core Principles (ICPs) embrace the notion of proportionality: regulators and supervisors can accommodate microinsurance by tailoring the regulatory and supervisory approach to the nature, scale and complexity of the business.

To this effect, the IAIS and MiN Joint Working Group on Microinsurance are in the process of developing an IAIS application paper to provide guidance, specifically regarding regulation and supervision for inclusive insurance markets. This follows two previous IAIS issues papers on microinsurance-specific topics and is a commitment of the IAIS to the G20 recommendations. Indeed, the G20 acknowledged the IAIS as a pioneer among international standard-setting bodies with regard to its financial inclusion approach.
The Access to Insurance Initiative strives to enhance the capacity of insurance supervisors. It is a global partnership that regards policy, regulation and supervision as a key tool to, ultimately, increase access and to reduce poverty.

The main themes emerging in microinsurance regulations relate to facilitating entry for providers and intermediaries, abolishing the demarcation between life and non-life, facilitating innovative delivery channels, motivating insurers to develop simple products and understandable contracts, and testing consumer education approaches. All of these speak to the G20 Principles on innovative financial inclusion.

The seminar focused on two key issues facing policy-makers and regulators in advancing their thoughts on microinsurance policy, regulation and supervision: applying the principle of proportionality in the micro-insurance context and lessons from countries that have already embarked on the path towards microinsurance regulation. Each issue was addressed through a facilitated discussion among panel members and open discussion among all the participants.

**Panel 1: Proportionality**

The first panel, consisting of supervisors from Brazil, India and South Africa, discussed proportionality in insurance regulation. It introduced the “trickier” part of the morning’s proceedings – how supervisors can balance risks and benefits in practice in terms of their regulatory and supervisory framework – that is, how to “put proportionality into practice”. Regulators and supervisors find that the characteristics of risk are changing as more customers are included and new products and distribution channels introduced. A tailor-made regulatory response is therefore called for.

The principle of proportionality should be implemented across the various aspects of insurance regulation and supervision. Brazil’s microinsurance resolution seeks to address the principle of proportionality in microinsurance. A key aspect of proportionality will lie in the application of simplified models and proxies to calculate solvency requirements for homogeneous, less complex risks.

In India, the Insurance Regulatory and Development Authority (IRDA), emphasises the transition of informal entities into the formal fold as a day-to-day proportionality challenge. Insurance business calls for significant financial and actuarial expertise, which may not be forthcoming among the target entities.

The challenges relating to formalisation are also emphasised in South Africa, where a policy document forms the basis for drafting detailed microinsurance legislation. In an effort to encourage formalisation, it creates a dedicated licence for microinsurance providers.

The state of development of the insurance market will be an important determinant of the specific regulatory approach appropriate to each country. Can the upcoming IAIS application paper regarding regulation and supervision supporting inclusive insurance markets help them address the day-to-day challenges? All panel-lists confirmed that IAIS guidance would be helpful, but emphasised that supervisors cannot simply sit back. They have to be proactive in applying guidance in their national context. Each country has much to learn from the experience of other countries. The application paper represents a joint effort by supervisors across jurisdictions to thrash out the issues and challenges.
In Nigeria, a major challenge is how to get stakeholders that are not within the supervisory jurisdiction on board and regulate them. Formalisation is also of concern in the Philippines, where the first step towards addressing this challenge was to bring on board other regulators of entities that provide insurance informally (for example, cooperatives). It is important to craft a single vision across regulators in a specific jurisdiction.

Though Colombia does not have a dedicated microinsurance regulation, it still incorporates proportionality in its regulatory framework. A lesson from Colombia is that one does not necessarily need a comprehensive microinsurance regulatory framework to encourage access to insurance.

The panel concluded that there is no one-size-fits-all solution, as country contexts vary widely. Continued dialogue is needed on how to assess risks, adapt regulation and build supervisory capacity accordingly.

Once the IAIS paper is published, a self-assessment questionnaire will be drafted on financial inclusion. The answers produced by the self-assessment are expected to identify and address access-related gaps that supervisors have to deal with in terms of know-how, systems and regulations.

When asked what were the most critical aspects of proportionality in their jurisdictions, the panellists raised the three following different yet equally important elements:

— Soundness/solvency
— Intermediation
— Encouraging business development

Box 1
Supervisory alphabet

— A is for the Access to Insurance Initiative as a learning and knowledge platform
— B is for being proactive: supervisors take the lead, and liaise with industry
— C is for consumer protection (and education and literacy) as a priority
— D is for distribution, to make sure that current forms and future forms can coexist
— P is for policy reform and proportionality
— Q is for quantitative and qualitative measures to understand the market and monitor trends
— S represents strong supervisors with sound supervision
Panel 2: Lessons learnt

The second panel asked: “Where do countries stand with policy and regulatory reform for inclusive insurance markets? What lessons have been learnt?” The panellists, from Mexico, the Philippines and Ghana, explained the state of the insurance market in their respective countries and the challenges to market development faced.

Insurance penetration is still very low in Mexico. There are three high-level challenges: financial literacy, agricultural insurance, and finding the right balance for government involvement. The Mexican government saw microinsurance as an important tool for reducing poverty and unlocking business potential. In 2008, a law was passed in Congress to mandate insurers to sell standardised products, in an effort to address the “middle layer” of the income pyramid. The insurance regulator then responded by issuing regulations to extend the reach of the insurance sector to the lower levels, addressing three aspects: prudential, tax and anti-money-laundering/combating of terrorism. Following an initial learning phase, the regulatory approach was adapted to be better tailored to actual market development. The second round of regulation has seen a rapid increase in market penetration, even though it is difficult to establish a causal relationship.

The Philippines was one of the first countries in the world to implement microinsurance regulation. Following the publication of the first microinsurance circular in 2006, two new circulars were issued in 2010 to add to and adapt the regulatory framework for microinsurance so as to broaden microinsurance provision, facilitate formalisation of insurance activities traditionally outside the jurisdiction of the insurance commission and create a space for microinsurance intermediation within regulation. These circulars were the product of broad consultation, and represent a joint approach by different regulators. A rationale and a strategic approach that all stakeholders can buy into were found to be essential.
Ghana is in the process of creating a microinsurance regulatory framework as part of its broad overhaul of insurance regulation. One of the main challenges concerned the definition of microinsurance to adopt: qualitative and quantitative definitions each involve their own challenges. So a different path was chosen, namely specifying criteria subject to which insurers will be allowed to define and develop their own microinsurance products to be approved by the regulator on a file-and-use basis. These and other provisions will be contained in a code, and insurers will determine whether an insurance contract is a microinsurance contract on the basis of guidelines provided by the regulator. Developing regulation is a long process, and regulators have to respond to innovation on an ongoing basis.

One of the main conclusions of the panel was that regulation happens within a dynamic environment, to which supervisors continually have to adapt.

Lessons learnt and the way forward

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Address challenges facing regulators on a practical level: for example, not just allowing a company to transact microinsurance because it is inclusive, while there is a risk of undermining the finances of the company.

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Proportionality is needed and the question is how to achieve it in a way that speaks to customer needs. Learn from experience and modify the regulatory framework if necessary.

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Conventional insurers in some markets may be interested only in traditional business and need to be convinced of the need to look towards the retail market. The main way to grow the retail base is through microinsurance. Access to Insurance Initiative diagnostic studies, like the one to be initiated in Nigeria, will help to establish an enabling regulatory framework for microinsurance.

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Clients buy policies if the policies serve their needs, if the price is affordable and if they are given good service (i.e. in terms of claims being paid when the need arises). On the market side, transacting the business needs to make commercial sense for insurers and intermediaries. This is the situation that regulators should try to achieve.

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Safe and sustainable markets are key to effective financial inclusion. There is no one-size-fits-all solution. Consumer education is an important component, and learning from data, transforming it into knowledge and, ultimately, acting on what is important.

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Coordination is needed among all key industry stakeholders and regulators from various spheres to achieve financial inclusion. The same applies to the various international standard-setting bodies.

About the Access to Insurance Initiative

The Access to Insurance Initiative is a global partnership of insurance supervisors and development agencies. The initiative is designed to increase voluntary usage of suitable insurance products for the low-income segment by strengthening the capacities of insurance supervisors.

www.access-to-insurance.org
This session in the academic track, hosted by Georgia State University, focused on recent advances in the methodology for studying microinsurance (see Table 1). The session highlighted not only the value but also the caveats of randomised controlled trials (RCTs) and provided an overview of alternative theoretical and empirical methodologies.

Academic analyses of microinsurance do not serve a single purpose. RCTs – which nowadays receive a lot of attention – address whether a policy “works” on average, but fail in the realm of other inferential objectives, such as cost-benefit analyses, the design of normative policies and identifying distributional effects. The session looked at alternative methodologies better serving these objectives.

**Behavioural economics**

Behavioural economics uses social, cognitive and emotional factors in understanding the economic decisions of individuals and institutions performing economic functions. It is useful, as it sheds light on the core “moving parts” in decisions about risk management and insurance.

Insurance decisions depend on a number of personal attributes: risk preferences, time preferences and subjective beliefs. Because of an aversion to risks, consumers are willing to buy insurance. Time preferences cannot be neglected because the cost of insurance – the insurance premium – is immediate, whereas benefits are only reaped in the future. Knowledge about subjective beliefs is crucial for insurers, as actuaries’ risk distributions differ from clients’ beliefs. This inevitably affects willingness to pay for insurance.

Additionally, when studying microinsurance, one needs to understand its place in a wider context of self-protection and self-insurance, not just insurance choices in isolation. Insurance is only one among many hedging tools. The poor at times protect themselves by reducing the probability of a bad event. Also, informal ways of self-insurance – improving not the probabilities but the outcomes of bad events – do exist. This is also one of the key messages of behavioural insurance.

**Behavioural insurance**

Behavioural insurance is an example of a behavioural-decision science that builds upon the interaction of theory, evidence, econometrics and statistics. It attempts to explain in a rigorous manner the many discrepancies between theories and observed insurance choices.

In the academic literature, a distinction exists between the concepts of risk and uncertainty that might have relevant implications for microinsurance. Risk refers to a case where the probabilities of outcomes are easily identifiable, for example getting heads or tails in the toss of a coin. Uncertainty refers to more complicated situations where probabilities are difficult to identify, like getting a heavy rainy season or not. This distinction is relevant to microinsurance because decisions under risk may not be directly comparable to decisions under uncertainty.


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9 — Stefan Dercon, University of Oxford, UK.
10 — Glen Harrison, Georgia State University, USA.
**Behavioural econometrics**

Behavioural econometrics bridges theory and evidence by measuring key determinants of decisions under risk and uncertainty. Parameters in (latent) decision models are estimated by connecting up structural econometric tools with experimental tools.

The field employs rich tools to estimate risk attitudes, time preferences and subjective beliefs. Studies, however, need to be designed well. One should measure the right theoretical construct; financial risk attitudes, for instance, may not have much to say about behaviour during a bungee jump. Questions participants are asked should also be transparent – real rather than hypothetical, and incentive-compatible. And econometric techniques need to be properly applied.

**Impact evaluation**

Impact evaluation presents an alternative way to study microinsurance.

One of the main reasons for evaluating impact is accountability. If an aid agency, for example, were to spend a million dollars on insurance, one would like to know its impact, in other words what would have happened if the money had not been spent on insurance?

It is important to think about measuring impact at an early stage. This is because it is hard to find a counterfactual against which to evaluate the impact ex post. Those buying insurance differ in many unobservable respects from people that do not buy insurance.

It is, therefore, important to design the impact evaluation before a programme starts. One way to do so is a randomised controlled trial (RCT). RCTs divide the target population randomly into two groups. One of these groups is offered insurance whereas the other serves as the counterfactual. The mean outcome of the two is then compared (see Table 1). Any difference can be attributed to the programme, and this average impact of the programme is called the intention to treat (ITT): the return on spending a million dollars on insurance.

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**Figure 3**

*Why there should be a baseline and counterfactual*

Assume that, at the start of a microinsurance programme, both the treatment and control group (the counterfactual) earn amount A per year. After one year in the programme, the treatment group earns amount C. The difference between C and A is, however, not the impact of the programme – in the absence of the programme, someone would have earned amount B. Only the growth in income from B to C can therefore be attributed to insurance. But if the two groups had not been earning equal amounts prior to the scheme, this result would not apply either, and we would need to control for initial differences. This is why baseline measures are crucial in any impact evaluation.

*Source: Amsterdam Institute for International Development, www.aiid.org*
The question is whether practitioners are really interested in the ITT, and whether RCTs should really be seen as the “gold standard” – even though RCTs do have a number of weaknesses.

First, the ITT determines whether the intervention worked on average, but not for whom it worked or whether it worked for those who bought insurance. The scale of RCTs is often too small to address such heterogeneity in treatment effects.

Second, neither does it shed light on distributional effects. Practitioners and policy-makers alike care about the winners and losers in the introduction of insurance schemes but this is typically ignored in RCTs.

Third, practitioners will need to know not only whether a programme works, but also how and why it works and what can be done to improve it – especially when scaling up.

Can we generalise the findings to other populations, areas or even countries? Impact evaluations such as RCTs provide a black-box answer in this respect, and are often artificially small programmes.

Fourth, any well-designed cost-benefit analysis evaluates the intervention against alternatives, for instance credit or savings products.

This requires a structural understanding of insurance rather than focusing on just the policy effects. It also means that we need to measure impact in terms of welfare rather than the incomparable outcomes of various RCTs.

How does one interpret an increase in, for instance, hours worked versus the number of farmers using fertiliser?

Cost-benefit analyses will benefit from a translation of findings into comparable welfare effects.

A recent advance in methodology is in the design of normative policies. One cannot impose one’s norms on others. Low uptake of an insurance product that looks good at first sight is not always due to irrational behaviour. Rather, a deeper understanding of norms could show that the product at hand would not benefit the target group.

Impact evaluation does not, of course, come easy or for free. How much rigorous research is still needed, and to what extent is it possible to rely on existing data? Evidence is limited, as past real-life experiments have been poorly documented in developing countries, and donors’ data are often not available. More rigorous research, longitudinal data, and meta-analyses, compiling the evidence from various studies at low cost, are needed.

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### Table 1

**A taxonomy of experiments – Different ways of studying microinsurance**

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<tr>
<td>Conventional lab experiment</td>
<td>Employs a standard subject pool of students, an abstract framing, and an imposed set of rules</td>
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<tr>
<td>Artefactual field experiment</td>
<td>As a conventional lab experiment but with a non-standard subject pool</td>
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<tr>
<td>Framed field experiment</td>
<td>As an artefactual field experiment but with field context in either the commodity, task, or information set that the subjects can use</td>
</tr>
<tr>
<td>Natural field experiment</td>
<td>As a framed field experiment but where the environment is one where the subjects naturally undertake these tasks and where the subjects do not know that they are in an experiment</td>
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Another issue raised is the marketing of the alternative approach to RCTs. RCTs have a large potential if users are encouraged to scale up and start thinking about structural parameters affected. The danger is that people will start seeing RCTs as the only way to study interventions, and will no longer be critical about what RCTs actually intend to measure. And by no means should a critique on RCTs be interpreted as an excuse not to think carefully about impact evaluation.

**Conclusions**

In methodology, one can detect false dichotomies in abundance: endless questions over big issues (as Sachs and Easterley advocate) or specific solutions that work (favoured by randomistas); agnostic eyeballing of average effects or all-in theological modelling with structural assumptions; lab or field; behaviour versus theory. The way forward is to abandon these dichotomies and start combining the approaches.

A renewed interest in experiments to evaluate policy, rich theory about the behavioural moving parts and tools from the lab, and increasingly flexible behavioural econometrics all contribute to exciting times – with a large army of smart people pushing the methods to study microinsurance yet one step further.

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**Lessons learnt**

- Any impact evaluation of insurance requires a counterfactual (Figure 3): what would have happened in the absence of insurance?
- Any impact evaluation starts ex ante, before the scheme is rolled out, since ex-post counterfactuals are difficult if not impossible to find.
- RCTs shed light on what works on average, but this approach fails to answer other questions.
- Rich theoretical and econometric tools exist that help one understand insurance decisions and its impact in a more structural way.
- Major advances in methodologies will combine the different approaches, from theory to RCTs.

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11 — Jimmy Martínez-Correa, Georgia State University, USA.
“The most important lesson I have learnt from this conference is that there is no ONE solution or model that can be applied to all, basically no one shoe that fits all. We will need to assess our situations separately, use existing models from around the world, and learnings and perspectives from these models to come up with the most effective programme in coping with micro-level needs.”

Sawsan Eskander, Coordinator Microinsurance, SAJIDA Foundation, Bangladesh
Agenda

Day 1 afternoon sessions
8 November 2011

Opening

Welcome addresses

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

Thomas Loster
Chairman, Munich Re Foundation, Germany

Jorge Hilário Gouvêa Vieira
President, CNaseg, Brazil

Ricardo Paes de Barros
Secretary of Strategic Actions, Government of Brazil

Julio Cesar Carmo Bueno
Secretary of Economic Development, Energy, Industry and Services, State of Rio de Janeiro

Keynote speech
Stefan Dercon
University of Oxford, United Kingdom

Plenary 1

Is microinsurance different in Latin America?

Recaredo Arias
General Secretary, FIDES, Mexico

Maria del Carmen Díaz Amador
General Coordinator, PRONAFIM, Ministry of Economy, Mexico

Nancy Lee
General Manager, Multilateral Investment Fund, IADB

Roberto Junguito Bonnet
Executive President, Fasecolda, Colombia

Facilitator
Doubell Chamberlain
Cenfri, South Africa
Opening: Welcome addresses
Dealing with one of the causes of long-term poverty

Rio de Janeiro, the *Cidade Maravilhosas* (marvellous city) and capital of Brazil until 1960, was where the 7th International Microinsurance Conference was held from 8–10 November 2011. Arguably, there is hardly a city more beautiful – but also where the social contrasts are as strong.

For the conference’s over 400 participants, the venue provided glimpses of glittering Ipanema and Leblon fronting the South Atlantic. But, in the hotel’s meeting rooms and halls, their thoughts were focused on the “favela” (slum) dwellers on hillsides just streets away.

How to help more and more of the have-nots uplift their lives was the overriding purpose of the conference – with its keynote speech making the point that lack of insurance is one of the causes of long-term poverty.

The participants included representatives of insurance and reinsurance companies, international organisations, NGOs and development-aid agencies, as well as academics, policymakers, regulators and supervisors. Significantly, this year’s conference attracted over 20 different national regulatory authorities from around the world, reflecting growing interest of governments in the benefits of microinsurance for low-income people.

The conference was hosted by the Munich Re Foundation and the Microinsurance Network, with the support of CnSeg (Brazil’s National Confederation of Insurers), GIZ/BMZ (Germany’s Agency for International Cooperation and Federal Ministry for Economic Development), SUSEP (the Superintendence of Private Insurance in Brazil) and Georgia State University’s Center for the Economic Analysis of Risk (CEAR) in the United States.

Three threads ran through the 22 sessions: academic analysis of aspects of microinsurance markets, such as benchmarks of success and value for low-income customers, contract design, and transition from informal to formal risk management; case studies of innovative solutions and products meeting the needs of poor households; and thematic issues, including national and regional strategies to develop microinsurance, distribution and demand, technology to achieve scale and efficiency, and protecting the poor against natural disasters.
Thomas Loster, Chairman of the Munich Re Foundation, welcomed participants to the conference, which he called a “platform to learn, to discuss and to develop new solutions for better microinsurance schemes”.

He also pointed out the importance and possibilities of the Brazilian microinsurance sector. The market had an enormous, though not yet fully explored, client base, which was expected to grow 300% over the next 20 years to 100 million, he said, and this potential had not gone unnoticed by large insurance companies in Brazil that were the front-runners in microinsurance. Compared to the largely rural microinsurance markets in Africa and Asia, he added, a unique feature of the Brazil market was that more than 50% of low-income people lived in urban centres, facilitating access and the use of technology for distribution and service.

In his welcome speech, Craig Churchill, Chairman of the Microinsurance Network, said that new sectors and organisations were getting involved in microinsurance, developing new products and approaches. “There has been a dramatic expansion of the number of people covered by microinsurance; it is estimated to be 500 million now. Some markets are growing by leaps and bounds. Asia is spearheading microinsurance development, with India accounting for 60% of the global total of 500 million. But more and more markets are following suit and there is hope that the next half a billion will come much faster.”

As this growth took hold, he said, it was important to note that “there is no one-size-fits-all microinsurance strategy”; various “cultural and regulatory contexts” must be taken into consideration in different countries. However, he added, government support and public-private partnerships had been a significant factor in accelerating growth in most markets.

Luciano Portal Santanna, Superintendent, SUSEP, in his opening address, emphasised the importance of a regulatory framework in the sector, to allow for exchange of knowledge, experience and ideas, to enable efficient service and the expansion of distribution channels, and to achieve social inclusion.

“Another necessity is to help companies working informally graduate to a professional level.” Speaking on behalf of the industry, Jorge Hilario Gouvêa Vieira, President of CNSeg, said its member insurers would continue to help ensure the well-being of low-income families through private insurance. Through CNSeg, their confederation, they have the advantage of regular information exchange and the ability to learn from one another.

Renata Cavalcante, Rio de Janeiro State’s Secretary for Economic Development, conveyed the Governor’s greetings to the conference and thanked sponsors and participants for “this unique opportunity” to encourage and promote microinsurance.

Increasing social mobility in Brazil was enabling millions of people to cross the poverty line, but they were doing so without much awareness of insurance and being excluded from trade and services, she said. “They are recovering citizenship, but have yet to obtain insurance and financial education and culture – a situation that this conference will help redress.”
I joined DFID only last week and I am definitely not going to speak on its behalf. I am grateful to the Microinsurance Network and the Munich Re Foundation for inviting me, and I am delighted to be in Brazil and in this beautiful city of Rio de Janeiro. Let me hope I can keep you awake for the next 30 minutes or so, as I tackle the topic of insurance for the poor.

I will be talking largely about some lessons I would like to draw from research – some of it my own, some of it from others – on how to insure the poor and how to think about it in terms of things we can do. I will cover four topics:

— The high cost of risk – our usual justification for not being very keen to try to actually offer insurance to the poor.

— Where does insurance fit into risk management, and is it really the answer?

— Insurance is a hard sell: the problems with rolling out insurance, and some of the recent lessons from research.

— Evidence and lessons from the microcredit boom – is there a microinsurance parallel?

Let me first set the stage. A lot of my own work over the years has been studying risk and its consequences, and one country I’ve worked on is Ethiopia, where in 2006, in various settings and services, we asked people a simple question: “What kind of events or shocks have really affected your wealth, or standard of living, or nutrition over the last four years?”

The lists of answers we got from people in urban and rural areas are pretty similar, though the number and frequency of shocks varied with the setting (see Table 2).

“Is insurance really the answer here? Well, it clearly is an answer – because the risks the poor face are highly insurable.”

Stefan Dercon
Two-thirds of the people interviewed reported one of these events. One in five mentioned illness, and one in five price shocks, job losses, mortality shocks in the family, things to do with insecurity, and theft and crime. In villages, the lists included getting evicted from the land. Illness featured quite high, but the big shocks were the climatic ones, 44% spoke of droughts or flooding, and 40% of crop pests. Then there were mortality shocks, animals dying, etc.

A poor country like Ethiopia is a very risky environment, but in both urban and rural areas, what people listed seem to be insurable risks. Risk is in many ways just part of life for these people. They’ve often organised their lives around risk. They’ve already undertaken all kinds of risk management and portfolio adjustments; they’ve adapted their livelihoods, avoiding costly inputs that may be very high-risk by not committing money to these, or by going for safe activities. They try to do things in their lives to actually avoid exposure to some of these negative effects; they’re very cautious in terms of the investments they make and the assets they hold. They keep liquid assets; maybe a small stock to sell off quickly. They need to do something, so they keep grain stores, etc.

Also, and quite importantly, they do tend to support each other quite a lot in their communities, both informally within families or using slightly more formal groups: savings groups, church groups, or – even more formally – well-organised funeral societies. Every month, virtually every Ethiopian will pay a small premium into at least one of these groups, and usually to four or five of these groups, to ensure that a funeral is paid for in the event of a death in the family.

They have already organised themselves in terms of having some form of insurance among one another. These risk management measures work, but they don’t work well enough. They provide only partial insurance.

Take, for example, the impact of a shock on the poor’s consumption levels, of which food accounts for 80–85%. Data for 1999–2004 in rural Ethiopia showed that people hit by the big drought lost about 13% to 16% of their consumption. Compare that to the 5% or 6% drop in GDP that has caused a huge crisis in Europe. The drought’s impact in Ethiopia meant people losing almost a fifth of their livelihood. Prices of agricultural products dropped by a fifth, as did demand for non-agricultural products – while serious illness in the family was up by a sixth.

If we had been able to offer insurance for all these sources of risk, poverty would have gone down by a third. That’s a huge amount, so it would have had a huge impact. And that impact is not just direct – on nutrition, welfare, etc. There is actually more to it as well, because all the informal strategies that people are engaged in come at a cost. They are literally going in for a lower return on their activities to achieve more safety. These very poor communities are in fact choosing to have lower income in order to have more security. By keeping small stocks rather than investing in productive assets, by keeping liquid assets to be used in time of need, they are going, essentially, for a lower return on the assets.

<table>
<thead>
<tr>
<th></th>
<th>Urban</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any shock?</td>
<td>67</td>
<td>86</td>
</tr>
<tr>
<td>Illness in family</td>
<td>22</td>
<td>31</td>
</tr>
<tr>
<td>Price shocks</td>
<td>21</td>
<td>38</td>
</tr>
<tr>
<td>Job loss</td>
<td>18</td>
<td>6</td>
</tr>
<tr>
<td>Death in family</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td>Theft/crime</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td>Livestock death</td>
<td>6</td>
<td>36</td>
</tr>
<tr>
<td>Land eviction</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Crop pests</td>
<td>6</td>
<td>40</td>
</tr>
<tr>
<td>Drought</td>
<td>5</td>
<td>44</td>
</tr>
<tr>
<td>Rain/flood</td>
<td>3</td>
<td>22</td>
</tr>
<tr>
<td>Frost</td>
<td>1</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: Dercon, Stefan. Presentation “How to insure the poor – Lessons from research”. 7th International Microinsurance Conference 2011
When we say that insurance would have brought poverty down by a third, the real impact is even greater, because people’s informal strategies are actually increasing the level of poverty to effect reduce the fluctuation they face in their living standards. Thus, they are actually choosing more poverty because they otherwise can’t cope with the risk very well – a further effect to consider. In fact, there is quite good evidence that the lack of insurance is a cause of persistent poverty. Not just measured poverty in the year they experience the shocks, but long-term consequences for these people that make this poverty persistent.

Studies have shown persistent consequences into adulthood for children when crisis affects a family. In Tanzania, stunting and lower education were evident by 2004 when there was an adult mortality in the family in the 1990s. In Ethiopia, there was stunting, morbidity and lower education by 2004 for children in families affected by famine in 1984–85. In Zimbabwe, there were similar impacts from the drought in the early 1990s. Also in evidence were lower returns on assets as a result of risk and shocks. There was a 25–50% lower return per dollar invested by the uninsured in Tanzania and India, and lower income growth in the 1990s in families affected by the 1984–85 famine in Ethiopia.

Shocks also caused lower investment in productive technologies. For example, there is lower fertilizer use in Ethiopia because debts cannot be insured, even now. These long-term impacts are all due to a lack of protection. This would clearly indicate that better insurance could have great benefits, not just in the short term at the moment the shock occurs, but – because of all the dynamic processes involved – we could experience really significant benefits in the long run.

With that case made, one needs to ask: Is insurance really the answer here? Well, it clearly is an answer – because the risks the poor face are highly insurable. But we live in a world with plenty of alternatives, where lots of these risks could and may well be covered by lots of alternative mechanisms – and that’s where the case for insurance becomes difficult.

For all these long-term problems of stunting, lower education, poor investments and the level of limited returns the poor can have, and so on, insurance could have very big benefits. But actually these people could have access to better credit markets where they can get consumption loans in times of need, when they really can use borrowing as a way of soothing consumption that is potentially a good alternative.

We should not simply dismiss it. We could go further, but the point is that good savings products, if available to the poor, could have really large benefits too. Then there’s the big one: if only there were better social protection mechanisms and contingent safety nets in times of need and crisis. Then insurance could have large benefits, but many other products, like savings and credit, and social protection schemes, could perform many of the functions of insurance. That leads me to emphasise that we always have to think very carefully about the kind of products, the kind of places and contexts where insurers can really make a difference. For example, offering savings instruments or credits is incredibly costly when we’re dealing with covariant risks, with catastrophic risks or with correlated risks, the three Cs.

If you have your little MFI giving credit to all the farmers in a particular region, but then there’s a drought that makes the MFI go bankrupt, nobody can pay anything back, and that’s the end of it. As for savings, you need to build up a huge amount of precautionary savings to be able to deal with real catastrophic events. So you have to think very carefully about where the insurance niche is. But at the same time, you can’t simply say that the insurance you will offer is the ideal case of the perfect insurance product. There are always going to be trade-offs between these different alternatives. If the products or provision that you can offer in terms of insurance is not the perfect, idealised, actuarially fair kind of product that you think you are offering, if you have to somehow tailor it and arguably do things to it, then you’re definitely living in an imperfect, “second-best” world where you have to start thinking carefully about these trade-offs. For example, a lot of products, say for example, rainfall-index- or weather-index-based products, involve dangerous risk. You can’t really insure exactly the risk as the farmer faces it: you’re actually insuring the rainfall, which is just one risk which may not be perfectly correlated, and certainly is imperfectly correlated with the loss the farmer faces, which makes it imperfect as a product. You may well offer difficult products, but ultimately, if they’re very hard to make decisions on, a lot of people will not make the “correct” decisions, and thus not end up holding the portfolio that is actually optimal for them.
You may also, because you need to handle a fair selection, say, “Well I’m very happy to offer this health insurance product, but if you’ve got HIV/AIDS, maybe I can’t really have you in here because retrovirals will be too expensive, and I have to make exclusions.” That means the products you’re offering are imperfect, and on the trade-offs the alternatives are probably even more real.

Similarly, you have the challenge of the expansion of social protection. Many governments play a huge role in it. I will highlight two programmes that have an insurance feature that actually in some form helps with some element of contingency, and that are ultimately part of more traditional government social-protection schemes. One is the Indian Employment Guarantee Scheme. This has a self-selection mechanism, which makes it contingent on things being bad for the participant, who opts in when wages are low. It guarantees all participants a certain number of days of work provided they fulfil certain criteria, but the pay is not very high.

Then there is the national health insurance scheme in India, the RSBY, which is heavily subsidised, but also brings in private-sector insurance companies. RSBY in a way is combining social protection and private insurance. But it means that, in a world where government is taking these kinds of initiatives, you have to think very carefully about where whatever you’re trying to offer can actually be complementary and offer value compared to what is there already. You can’t simply say “there are a lot of risks, therefore let’s offer insurance”.

So is insurance the answer? It’s only one product relevant for dealing with risk for the poor. **What we do always need to understand well is how we can integrate insurance into the financial livelihoods of the poor and into the way poor people are dealing with the various ways of organising their financial lives.** Also, we need to understand the informal risk-management people are doing, and how it fits in. Indeed, and that’s the heart of it sometimes, is it really adding value compared to maybe devoting our energies to alternatives? Things that maybe involve getting out of poverty in another, more direct way may well be options there. This is much harder, but I just want to challenge you to come out of the comfort zone and always say, “Well, where do we have value relative to all these other things that we could be doing?” It is a tough question, but one that’s well worth tackling.

**So insurance may not always be the best and most cost-effective product for the poor, but I do want to emphasise that, in a world where governments may be moving into social transfers and more schemes of supporting RSBYs and so on, there is definitely something that insurance has that social assistance programmes could certainly learn from. This is also where you’re stepping into that world of social protection, which would really be a good idea because the great thing that insurance offers is that it is contingent; it kicks in when things are bad, when really the need is highest. Thus, the largest transfer happens when the need is high, whereas a lot of these transfer schemes seem to be totally blind to risk. They pay the same amount every year until the money runs out, and then they do something else.**

The other advantage of insurance is its contractual nature. You are making a contract with poor people, you don’t simply say, “Well, as long as this government is in power, we may well be giving you the payment, but if this government is ousted, let’s invent something else again.” You do insurance contractually, and there’s something really beautiful about insurance here, in that you are doing something contingent when need is high, and that it’s also contractual, so you are ultimately less exposed to political ideology.

**So, insurance is an answer, and there are opportunities and circumstances where it is the answer. But something we need to understand and deal with better is that it’s pretty hard to sell insurance.** There’s a lot of practitioner-based evidence around on selling insurance and getting people to take it up, and what it does to people’s lives. What is lacking is systematic evidence on actual take-up and its constraints, and on the impact of microinsurance – how it affects people’s lives. It’s true that a lot of people in the world have bought microinsurance; it’s actually quite remarkable. Still, these millions of people with insurance are in fact only 2.6% of the poor who need it. If risk management is so important to the poor, why is there not more insurance uptake? Particularly in Africa, where apparently it’s mainly funeral insurance generating the sales volume – and that mainly in South Africa.
It is not just a supply problem, and that’s another thing I want to bring home. A lot of studies and experiments have tried to look at the problem in a careful way, and determine whether people will actually buy insurance if it is offered. Some of these were conducted in India, where only 5–10% bought index-based drought insurance, and fewer still renewed. A drought insurance product offered in another experiment in Ethiopia attracted only 3% of farmers. In a study in Malawi, fewer people opted for insured credit than uninsured (22% vs. 33%). A particularly troubling outcome of these studies is that the most risk-averse of the participants bought the least insurance.

So there is actually a real issue there. Now, can we fix this problem, or is the jury still out? It doesn’t really matter if not everybody buys insurance; we don’t necessarily need 100% coverage. In a world where the poor have alternatives, they could buy other things. But still, 3% uptake does not sound like a very healthy statistic. Better products should be possible. Cost is also an issue. Although you could say you would have hoped that if you had maybe tried to sell these products just after the harvest, when the potential customers would have had quite a lot of money, and so on, maybe they would be buying these things, and these things were tried. This does seem to be coming up, but a little bit less clear than one would have hoped. There is definitely an issue that insurance is complicated. Financial literacy seems to be a factor, with clear evidence that understanding of insurance matters for uptake. Business risk also matters. The products we’re offering are only correlated, and not identical to an indemnity-based insurance product. The basis risk seems to be driving certain people away. We have some evidence from Ethiopia that business risk seems to matter to quite a lot of people.

Then there is something we definitely found in a few contexts in China, and in life and sickness insurance: in looking at health insurance, we found that trust, and more specifically the perception that the insurer may not pay out when you need it – or that the health provider may not honour your insurance policy – actually mattered a great deal. A very striking thing, but you should not underestimate that it’s there. The perception of insurance default actually makes this product itself quite risky. In fact, the lack of trust in a sense helps us to understand why risk aversion is in fact correlated with less insurance.

So, what if people don’t trust insurance and insurers? Can we actually fix this problem?

After a number of studies on take-up in various countries, we at DFID are trying to work with local informal insurance groups, and maybe you could, in your portfolio, add some more things. What we’re suggesting is probably the most effective way, based on what the evidence says: the use of “platforms” to provide access. Maybe linking products with things that people can trust and work with, maybe working with trusted institutions and groups, or just in general working on the trust that people can have in you. Insurance is a hard sell, but I’m pretty sure that we can gradually learn a systematic approach and come up with better ways of dealing with this hurdle, and making some progress.

I want to come to the final point which is, in a way, re-emphasising that the only way we’ll make progress on insurance – in my view at least – is if we start proving that it really transforms people’s lives in a very systematic way. I like to make the parallel with the whole microcredit experience. Maybe some of you started out in that business. I think I’m glad I didn’t, because I would find myself with a bit of egg on my face. In the microinsurance world, we are a little jealous of the success that the microcredit people manage to get by pushing credit and getting everybody, the great and the good in the world, to just stand up and say, “Look we’ve found a silver bullet; everything is going to be changed by microcredit”.

Keynote speech
Stefan Dercon
Can we follow the same path, and is this going to be our moment? (See Table 3.)

In the microinsurance world, there is a need for evidence on the positive story, while realising that it is positive owing to the avoidance of a "negative" story. We need to emphasise this evidence in relation to risk management alternatives, identifying the types of risk and circumstances where the returns from and value created by insurance can be the highest – not in isolation from other financial products (savings, credit), and not in isolation from social protection efforts. We need to work on synergies, such as building insurance into cash transfer schemes, interlinking insurance, other welfare or productive schemes, and using insurance to make welfare schemes sustainable.

I think that in ten years’ time, microinsurance will be successful if it has been able to build insurance into social protection. Insurance for the poor has a huge future. We need to identify its niche and complementarity in development. The evidence base is essential for that.

Success should be measured via impact, how you transform people’s lives, and not via uptake. But uptake cannot be ignored. Having only a few happy customers does not make a healthy business. If there is just 3% uptake for a product, I don’t really know if it’s also going to work as a business model. We need a better understanding of why uptake remains so low. Don’t just believe your own marketing. Be critical of all the things that you tell to the donors and to the outside world about what you’re doing, and I think that’s where the learning will begin.

Thank you very much.

Table 3
Is this the age of microinsurance?

<table>
<thead>
<tr>
<th>Feature</th>
<th>Microcredit experience</th>
<th>Microinsurance challenge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Narrative</td>
<td>— Poor, so provide cash&lt;br&gt;— Encourage them to invest&lt;br&gt;— But ensure they repay</td>
<td>— Disaster looms around the corner&lt;br&gt;— Protect against disaster&lt;br&gt;— So they do more positive things</td>
</tr>
<tr>
<td>Development narrative</td>
<td>Responsibility, entrepreneurship</td>
<td>Security, rights, protection</td>
</tr>
<tr>
<td>Challenge</td>
<td>To get them to repay</td>
<td>To get them to part with their cash</td>
</tr>
<tr>
<td>Risk</td>
<td>On the lender</td>
<td>On the client</td>
</tr>
<tr>
<td>Nature of advocacy problem</td>
<td>Easy sell, as positive: Getting them out of poverty</td>
<td>Harder sell, as avoiding negative: Avoid descent into hardship</td>
</tr>
<tr>
<td>Evidence</td>
<td>Non-existent at start, little later on, Poor not quite reached and no clear evidence of transformed lives.</td>
<td>Non-existent at start, emerging evidence. Are poor reached? Does it transform lives?</td>
</tr>
</tbody>
</table>

Source: Dercon, Stefan. Presentation “How to insure the poor – Lessons from research”. 7th International Microinsurance Conference 2011
The first plenary of the conference looked at the characteristics of microinsurance in Latin America, with four speakers sharing their thoughts on sector development and its main focuses.

Acknowledging that information about existing microinsurance offerings in the region and on the exact size and needs of the market is incomplete and not widely available, speakers noted a few comparative features of microinsurance in Latin America:

— Target market: poor and low-income households, micro-, small- and medium-sized enterprises, small farmers
— Client bases: urban and rural
— Flexibility: in product design as well as in financing tools
— Local partnerships: largely independent client base
— Institutional make-up: private sector or civil society

The product offering in Latin America is less diverse than in other parts of the developing world (see Tables 4 and 5), which may be due to funding stemming mostly from the private sector (unlike Asia or Africa, where mutuals and the public sector play key roles).

Table 4
Regional comparison of microinsurance markets (life, health, agriculture)

<table>
<thead>
<tr>
<th></th>
<th>Latin America and Caribbean</th>
<th>Asia, Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products widely available</td>
<td>Funeral, credit-life, disability (Life and health less available)</td>
<td>Life, health, agriculture, funeral</td>
</tr>
<tr>
<td>Premiums and insured value (life insurance)</td>
<td>— Premiums from US$ 11–100 (annual)</td>
<td>— Premiums from US$ 0.7–20 (annual)</td>
</tr>
<tr>
<td></td>
<td>Rarely subsidised by government</td>
<td>Often subsidised by government</td>
</tr>
<tr>
<td></td>
<td>Sum insured up to US$ 10,000</td>
<td>Sum insured up to US$ 1,500</td>
</tr>
<tr>
<td>Outreach</td>
<td>10% of global market, 78 million people insured, most in urban areas</td>
<td>Africa: 4% of global market, four million insured, Asia accounts for most of the global market (66 million people), most in rural areas</td>
</tr>
<tr>
<td>Financing</td>
<td>Most from private sector</td>
<td>Public sector, donors, private sector</td>
</tr>
<tr>
<td>Available knowledge</td>
<td>Since most products are financed by private sector, available information is limited</td>
<td>More public information is available</td>
</tr>
</tbody>
</table>

Source: Lee, Nancy. Presentation “Is microinsurance different in Latin America?”. 7th International Microinsurance Conference 2011

Table 5
Microfinance in Latin America and the Caribbean vs. microfinance in South Asia

<table>
<thead>
<tr>
<th></th>
<th>Latin America and Caribbean</th>
<th>South Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active microloan borrowers</td>
<td>14.3 million</td>
<td>55 million</td>
</tr>
<tr>
<td>Average loan balance</td>
<td>US$ 1,024</td>
<td>US$ 368</td>
</tr>
<tr>
<td>Average client base of MFI</td>
<td>39,775</td>
<td>293,493</td>
</tr>
</tbody>
</table>

Source: Lee, Nancy. Presentation “Is microinsurance different in Latin America?”. 7th International Microinsurance Conference 2011
This may also partly explain the relative lack of widespread awareness of microinsurance products in Latin America. With the large role of the private sector, there are point-of-sale/distribution-channel differences compared with Asia and Africa, where microinsurance may be geared more towards network/MFI and bundled sales. Microinsurance customers in Latin America—other than the relatively fewer numbers linked to affinity groups such as MFIs—are more likely to purchase products in retail contexts, including supermarkets and utilities which have formed partnerships or are owned, in whole or in part, by the insurance provider or one of its subsidiaries.

Insurance penetration in Latin America is 2.7%, compared to the world average of 6.7%. In accordance with the low penetration—whereas in Asia and Africa, various products are “successfully” competing on the market—microinsurance in Latin America is concentrated, for the most part, on funeral insurance.

Of the approximately 7.8 million insured, the majority are in urban areas, which also contrasts with the Asian and African markets. The source of premium payment may also differ slightly as, especially in the case of funeral insurance, remittances from and policies bought in the migrant’s host country seem to be the norm.

Notably, one of the major differences in the Latin American microinsurance sector has been the great regulatory and policy importance placed on conventional insurance, leaving behind the development of the special microinsurance niche. But there are signs of a shift, with Brazil enacting special microinsurance legislation. It provides for dedicated microinsurance brokers to serve markets they know well—though existing insurers in the private sector will still be able to distribute products aimed at the low-income market.

**Savings rate**

Another striking difference between Latin America and other developing markets is a factor which may not initially enter into the strict realm of microinsurance: household savings rates (see Box 2).

Brazil’s average household savings rate—perhaps the highest in the region—is five times less than that of India. The implications of this difference for microinsurance sector development—and more importantly for the sector/product diversification needed in the region—are evident. The inclusion of insurance linked to savings, and not only (micro)loans, is necessary for greater outreach, sustainability and, possibly, the achievement of scale.

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**Box 2: Household savings rates**

- China: 38.0%
- India: 34.7%
- Brazil: 6.8%
- Chile: 7.7%

Source: Bloomberg 2011

20 — Left to right: María del Carmen Díaz Amador, PRONAFIM, Mexico; Doubell Chamberlain, Cenfri, South Africa; Nancy Lee, IADB, USA.

21 — Roberto Junguito, Fasecolda, Colombia.

22 — Recaredo Arias, FIDES, Mexico.
One reason for this stark difference may be that poverty and extreme poverty are higher in Latin America as a whole. The poverty level in the region is pegged at 30%, and one in five of the poor may be in the extreme range. An estimated 80% of the poor earn between US$ 2 and US$ 8 a day, and have more money to buy protection than the poor elsewhere – for example, India and China where a majority of the poor live on less than US$ 2 a day.

With a large number of the poor having no access to formal protection mechanisms, the potential market for microinsurance in Latin America is significant. In Mexico, for example, this target market numbers some 57 million and there are seven million self-employed micro businesses. For a number of years, the government has identified microinsurance in connection with credit and savings – all parts of a global instrument to eliminate poverty.

Another by no means unique aspect of the Latin American microinsurance scene is the relative heterogeneity in the socio-economic indicators of different countries and the correlative strong variation in insurance penetration (Figure 4). This heterogeneity is also mirrored in the regulatory and policy environments of the continent, which vary enormously. The same is probably true of Asia and Africa, where some countries are far more advanced than others that lag seriously behind. Therefore, continental microinsurance comparisons may not be significant, except as a frame of regional reference. Studying country-specific trends in the separate comparative baskets of, say, Brazil and India or Mexico and the Philippines, may provide insights for strategies that are statistically more meaningful.

Lessons learnt

Though low-income markets in Latin America, Asia and Africa are in some ways different, they have drawn common lessons from experience, and face similar challenges and priorities as microinsurance heads into its second decade of prevalence:

- Evolving, multi-party, consensus-based regulation
- Customer protection and focus on value
- Use of innovative and technologically advanced distribution channels
- Branching-out of players for increased participation by all
- Knowledge-sharing and increased financial education
- Fiscal incentives to encourage private involvement
- Strategies and product design aiming for massive impact though public-private partnerships
- Holistic development

Figure 4
Insurance penetration and GDP per capita

PIB (“producto interno bruto”, that is gross domestic product or GDP) and insurance penetration, measured as a percentage of GDP, vary greatly among countries in the region.

Source: Junguito, Roberto. Presentation “¿Son los microseguros diferentes en América Latina?”. 7th International Microinsurance Conference 2011
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<thead>
<tr>
<th>Parallel session 1</th>
<th>Parallel session 2</th>
<th>Parallel session 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Case studies from Latin America</strong></td>
<td><strong>Case studies in health microinsurance</strong></td>
<td><strong>Expanding distribution</strong></td>
</tr>
<tr>
<td>Isabel Cruz</td>
<td>Elizabeth McGuinness</td>
<td>Introduction</td>
</tr>
<tr>
<td>CEO, AMUCSS, Mexico</td>
<td>Director of Consumer</td>
<td>Brandon Mathews</td>
</tr>
<tr>
<td>RedSol project, Mexico – Innovative business model in remote rural areas: Integrating the value chain for the distribution of microinsurance</td>
<td>Research, Microfinance</td>
<td>Head of Emerging Consumer, Zurich Financial Services, Switzerland</td>
</tr>
<tr>
<td>Barbara Magnoni</td>
<td>Opportunities, USA</td>
<td>João Joaquim de Melo</td>
</tr>
<tr>
<td>President, EA Consultants, USA</td>
<td>Community management of risk pool spreads benefits of microinsurance</td>
<td>Neto Neto</td>
</tr>
<tr>
<td>Healthcare made to order – The case for women’s health insurance at Aseguradora Rural</td>
<td>Richard Koven</td>
<td>Coordinator, Palmas Institute, Brazil</td>
</tr>
<tr>
<td>José Luis Contreras</td>
<td>Project Director Business</td>
<td>Experience with bancassurance</td>
</tr>
<tr>
<td>CEO, Aon, Bolivia</td>
<td>Case, Microinsurance</td>
<td>Anja Smith</td>
</tr>
<tr>
<td>Microinsurance: The case for new underwriting DNA</td>
<td>Centre, LLC, USA</td>
<td>Director, Cenfri, South Africa</td>
</tr>
<tr>
<td>Facilitator</td>
<td>Good business practices</td>
<td>Ensuring value to clients through collective industry products: The story of the South African insurance industry’s Mzansi and Zimele products</td>
</tr>
<tr>
<td>Miguel Solana</td>
<td>Annabelle Sulmont</td>
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<tr>
<td>Microinsurance Officer, ILO/</td>
<td>Assessor, research and market studies, REDSOL, Mexico</td>
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<tr>
<td>Microinsurance Innovation</td>
<td>Understand health protection necessities of people affiliated to Seguro Popular in Mexico</td>
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</tr>
<tr>
<td>Facility, Switzerland</td>
<td>Facilitator</td>
<td>Peter Wrede</td>
</tr>
<tr>
<td></td>
<td>Miguel Solana</td>
<td>Microinsurance Officer, ILO, Switzerland</td>
</tr>
<tr>
<td></td>
<td><strong>Academic track:</strong></td>
<td></td>
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<tr>
<td><strong>Product design and demand for microinsurance</strong></td>
<td><strong>Is low take-up a rational choice?</strong></td>
<td></td>
</tr>
<tr>
<td>Karljén Morsink</td>
<td>George Zanjani</td>
<td></td>
</tr>
<tr>
<td>Researcher, University of Twente, Netherlands</td>
<td>AAMGA, Associate Professor, Department of Risk Management and Insurance, Georgia State University, USA</td>
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<tr>
<td>Informal local trust and microinsurance demand: Testing a comprehensive model in the rural Philippines</td>
<td>Richard Phillips</td>
<td>Head of Emerging Consumer, Zurich Financial Services, Switzerland</td>
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<tr>
<td>Daniel Clarke</td>
<td>Chairman, Department of Risk Management and Insurance, Georgia State University, USA</td>
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<tr>
<td>Researcher, University of Oxford, United Kingdom</td>
<td>Discussant</td>
<td>Craig Churchill</td>
</tr>
<tr>
<td>Microinsurance decisions: Evidence from Ethiopia</td>
<td></td>
<td>Chairman of the Microinsurance Network, ILO/Microinsurance Innovation Facility, Switzerland</td>
</tr>
<tr>
<td>Andreas Landmann</td>
<td>Richard Phillips</td>
<td>Facilitator</td>
</tr>
<tr>
<td>PhD student, University of Mannheim, Germany</td>
<td>Chairman, Department of Risk Management and Insurance, Georgia State University, USA</td>
<td>Glenn Harrison</td>
</tr>
<tr>
<td>Saving and microinsurance: Why you should do both or nothing. A behavioural experiment on the Philippines</td>
<td>Facilitator</td>
<td>Director CER/AfricaState University, USA</td>
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<tr>
<td>Facilitator</td>
<td>Richard Phillips</td>
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</table>
Parallel session 1

Case studies from Latin America

Microinsurance is flourishing in Latin America through a competitive commercial sector with diverse distribution channels.

This session focused on areas that still need to be strengthened in a manner that is sustainable and offers client value, including: reaching rural populations, more effective products, and complex products such as agricultural and health insurance.

The first two presentations addressed the rural sector: an intermediary model in Mexico and a health product in Guatemala. The third presentation discussed the coming of age of microinsurance and the importance of questioning established premises.

Integrating the value chain for distribution of rural microinsurance

**Redsol, Mexico**

<table>
<thead>
<tr>
<th>Number of people insured</th>
<th>140,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insured risks</td>
<td>Micro life, agriculture</td>
</tr>
</tbody>
</table>

Mexico is an upper-middle-income country with a GDP per capita of US$13,200, yet there are still vast inequalities between the rich and poor. This is especially true in rural areas, which present the greatest barriers to financial inclusion. Rural populations are characterised by dispersed indigenous communities, multiple languages and cultures and high proportions of illiteracy. Poor infrastructure and lack of connectivity make rural areas difficult to reach physically and virtually.

AMUCSS (Asociación Mexicana de Uniones de Crédito del Sector Social), which brings together rural financial institutions, including credit unions, has served marginalised rural communities for more than 20 years. Its poverty alleviation strategy is to bring the broadest array of products adapted to the needs of rural communities.

AMUCSS, an ILO Microinsurance Innovation Facility grantee, started its microinsurance programme with a commercial broker in 2005. Over several years, it developed RedSol, a microinsurance network. In 2009, RedSol assumed direct negotiations with Zurich, the programme’s insurer.

RedSol substituted the traditional broker-agent model for a network of social, community-rooted enterprises to provide value-added microinsurance dedicated to:

- products with the highest quality and cost-benefit ratio;
- technical assistance and training to develop effective channels;
- client research, innovation and technology for rural areas;
- advocating rural microinsurance to create public policies.

Not all members of AMUCSS have the immediate capabilities required to offer microinsurance. RedSol members are ranked according to their institutional solidity, gamut of products and growth potential. Sales strategies are segmented accordingly.

Products and services offered include a micro life cover called Secure Life, agricultural microinsurance for coffee, corn, rice and sorghum, certifying migrant repatriation, remittances and facilitating healthcare access. RedSol also offers group products for institutions including credit life, property, and life insurance for employees.

RedSol is developing several other products and has recently established an agricultural insurance fund which is reinsured by Agroasemex. The first of these microregional mutuals have been established in Chiapas, Puebla and Veracruz. Agricultural products are linked to credit for small producers.

23 — Isabel Cruz, AMUCSS, Mexico.

24 — Left to right: Miguel Solana, ILO, Switzerland; Barbara Magnoni, EA Consultants, USA; José Luis Contreras, Aon, Bolivia.
Healthcare made to order

Banrural is one of the leading banks in Guatemala, with the largest and deepest distribution network. It is committed to improving the lives of its clients, with health as a priority.

Having been awarded a grant from the Microinsurance Innovation Facility, Banrural’s insurance company, Aseguradora Rural, partnered EA Consultants to develop health microinsurance products.

Banrural’s clients are 90% rural or semi-rural, 64% indigenous, 51% women, 44% illiterate and 75% below the poverty line.

Low-income female savers were selected as the target segment. Preliminary focus groups were followed by a survey of 268 women to ascertain their health concerns, healthcare usage and willingness to pay.

Survey results indicated strong concerns about costly illnesses such as cancer, and chronic illnesses including diabetes and heart disease. Figure 5 illustrates a number of healthcare worries and beliefs, providing an insight into rationales behind responses.

The results also challenged assumptions:

**Myth:** Plans must include maternity.

**Reality:** The average age of clients is 42 – past the customary childbearing age.

**Myth:** For women, their children’s health is more important than their own, therefore they will want to insure the children.

**Reality:** Women’s concern for their children does not translate into a higher demand for insurance. They take children to free clinics.

**Myth:** Promoting women’s gynaecological health requires lots of education.

**Reality:** Women generally know there is a relationship between cancer prevention and gynaecological visits and tests, but they skip care regardless, because of factors including a fear of not being able to afford further care.

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**Figure 5**

**What health problems worry clients?**

I have pain in my lower abdomen, maybe it’s cancer.

My husband will think I am cheating on him if I go to the doctor.

If something happens to me, who will take care of my children?

I’m overweight, but I don’t have time to lose weight.

I would rather not know I am sick, I can’t afford treatment.

46% of women suffered from stress or anxiety. Stressed women spend US$ 70 a year more on health each year and US$ 12 more on each medical visit than women without stress.

Source: Magnoni, Barbara. Presentation “Healthcare made to order – The case for women’s health insurance at Aseguradora Rural”. 7th International Microinsurance Conference 2011
Factors revealed in the market study that were considered in developing the product included the following:

— Focus group discussions and surveys identified gynaecological/cancer prevention packages as the top priority.

— Games evaluating willingness to pay suggested that the price should be kept under US$ 4 per month.

— Covering every illness is not financially feasible; better to select one to three common illnesses and cover the entire prevention, diagnosis and treatment protocols.

— Early-stage diagnosis and treatment can be covered through Aseguradora Rural’s partnership with an existing provider network.

— Advanced cancer treatment in private clinics is too costly, but with some additional resources can be provided by the public health system.

Accordingly, the product includes a US$ 3,500 indemnification to cover additional expenses such as transportation, lodging and loss of income due to cancer. A modest funeral cover was also added.

A key feature of the product is prevention, which improves the client’s well-being, reduces claims, adds tangibility for clients and brings social value to the bank. Approval of the product by Guatemala’s Insurance Superintendence is pending.

A new DNA for microinsurance underwriting?

A presentation by AON Bolivia pointed out a need to explore the fundamental attributes and capabilities insurers should have to make microinsurance sustainable.

Microinsurance has developed to the point where one could say it is a “teenager” and, in its adolescence, it calls for the questioning and challenging of established principles and assumptions. Among these are: If a product is mandatory how can one say there is demand for it? What is the basis of the US$ 3bn potential microinsurance market?

There is talk of “new” ways of doing business that are old ways applied to a new business, and innovative products that are really adaptations of traditional products. Insurers have approached microinsurance as an extension of their core business, tweaking their products to fit size and price, and focusing on volume, pricing and technology.

In some respects the industry may be driven by circumstantial determinants that are flawed, rather than a dynamic strategy based on the execution of identified competencies.

These competencies need to be drawn from a strategic analysis of the value proposition to determine which attributes need to be replicated and which need to be reinvented and discovered.

In essence, to ensure its underwriting sustainability, microinsurance needs a new DNA.

Lessons learnt

— A network of enterprises rooted in remote rural communities can work directly with an insurer to deliver insurance protection to the poor.

— Such collaborative solutions can effectively pool resources and expertise from the development agencies as well as the insurance and reinsurance sectors.

— Governments can play an important role in supporting major initiatives and, as strategic partners, help sustain programmes related to poverty alleviation, agriculture, consumer education, consumer protection and financial inclusion.

— A focus of such government support should be the building of institutional capacity and training, which require substantial resources, especially in remote areas.

— The use of microinsurance as an effective tool in combating poverty needs to be advocated to policymakers.

— Healthcare, especially for women, is a priority and a pivotal concern for poverty-stricken communities, which microinsurance should address.

— The current stage in the microinsurance growth cycle requires strategic thinking outside the box on the part of providers.
Health microinsurance has been receiving much attention because of its relative complexity, and the discussion surrounding the role of social welfare in its development, who should be responsible for it, and whether private and public systems can function side by side to provide it. An underlying issue is profitability in the context of a service for the poor that is deemed to be not only a business but also a basic human right, and the level of profits regarded as reasonable and ethical.

Against this backdrop, the session covered risk management and spread, and good business practices evident in cases from India and Mexico.

**Uplift India**

- Number of people insured: 100,000
- Insured risks: Hospitalisation, maternity, outpatient support

**Uplift India Association**

In February 2011, Microfinance Opportunities (USA) conducted a study of a health microinsurance product known as the HMF (Health Mutual Fund) offered by Uplift India Association, a non-profit organisation serving urban slum-dwellers and the rural poor. HMF is a community-managed programme, serving some 100,000 members. Since it started in 2003, the programme’s cooperative approach has given its member-users a say in most important decisions: premium rates, network healthcare providers, claims approval and reimbursement amounts. Such decision-making often involves trade-offs between client value, sustainability and affordability.

The study’s goal was to determine, through qualitative field research and data analysis, whether microinsurance is a good deal for the poor. Key questions it addressed were:
- Does Uplift’s HMF protect households financially on an individual level?
- Are out-of-pocket costs of hospital care lower for insured households?
- How do community-managed reimbursements influence the level of financial protection provided?
- Does HMF protect households financially on an institutional level?

The study’s main conclusion was that community management of a risk pool spreads benefits. Specifically, findings include the following:

- Insured families have lower out-of-pocket costs following a health event than uninsured families.
- Members receive value, through price concessions when network providers are used and through claims reimbursements if government or network providers are used.
- The cooperative model improves outreach, as members actively expand the number of satisfied claimants, keeping the renewal rate high and ensuring programme sustainability.

The study proposes an expanded definition of financial value for micro health insurance: “Financial value of health insurance is the degree to which membership of a health microinsurance programme lowers the overall financial costs incurred due to ill health.”

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26 — Left to right: Peter Wrede, ILO, Switzerland; Elisabeth McGuinness, Microfinance Opportunities, USA; Richard Koven, Microinsurance Centre, USA.

26 — Anabelle Sulmont, REDSOL, Mexico.
RedSol, Mexico

Red Solidaria de Microseguros Rurales (RedSol), a microinsurance network created in 2007 by the Asociación Mexicana de Uniones de Crédito del Sector Social (AMUCSS), works with rural organisations and private insurers to serve indigenous communities in remote areas.

In Mexico, where “the universal right to health” is proclaimed by the constitution, the government instituted a system of social protection in health in 2003, called Seguro Popular (SP), which people without medical coverage can use for a range of primary, secondary and, to an extent, tertiary care.

In 2004, SP disbursed care to 1.5 million families. In 2010, the number of affiliated individuals had risen to 42.5 million. Despite this universal healthcare system, RedSol saw true impoverishment exacerbated by catastrophic healthcare costs among its target population in marginalised regions.

Therefore, RedSol, in collaboration with Zurich, is developing a micro health insurance product, “sustainable in its coexistence with the public programme” (see Figure 6).

Lessons learnt from RedSol

— Private health microinsurance programmes can exist alongside and complement public healthcare systems, meeting unmet needs.

— Microinsurance can focus on medical-care-related extra expenses such as transportation, room and board, and income loss from disability, which may not be covered by a private or public insurer. To offset the lack of specialists in marginalised sectors, microinsurance can facilitate long-distance medical attention and telemedicine for clients.

— Low-income people prefer free services but are willing to pay for a better service if they perceive a value. Any premium for such a service should be kept to a minimum, even if it reduces the insured amount.

Figure 6
Product proposal

General idea: To cover the expenses for healthcare services with an insurance cover on reimbursement basis

<table>
<thead>
<tr>
<th>Current benefit: Cancer cover by microinsurance</th>
<th>Premium: US$ 6/year</th>
<th>Sum insured US$ 780</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microinsurance</td>
<td>Additional services: Medical exams, call centre, health and financial education—prevention campaigns</td>
<td></td>
</tr>
</tbody>
</table>

— To improve assistance service for beneficiaries
— To increase acceptance level of insurance premium by clients
— To establish initial contact by remote assistance/telemedicine solutions – constant progress in Mexico
— To follow up the work dynamic of RedSol-Zurich throughout the challenge of developing a complex product increasing capacities

Towards future product sophistication

The RedSol-Zurich health microinsurance cover is designed to include compensation for a catastrophic illness such as cancer.
The case for a business case

A presentation on business practices in health microinsurance included observations, findings and conclusions from a September 2011 visit to schemes operating in Karnataka and Maharashtra, India (see Figure 7).

RSBY

RSBY has been launched by the Ministry of Labour and Employment, Government of India, to provide health insurance coverage for below poverty line (BPL) families. Beneficiaries under RSBY are entitled to hospitalisation coverage of up to Rs. 30,000 (US$ 600) for most of the diseases that require hospitalisation.

Number of people insured
As of March 2012, RSBY covers 58.2 million families

Premium
Beneficiaries need pay only the Rs. 30 (US$ 0.6) registration fee. Premiums are paid by the Government of India and, to a limited extent, by the government of each state.

Generally, the national public RSBY (Rashtriya Swasthya Bima Yojna) programme is crowding out other schemes, some of which are managing to offer supplementary covers. Its contracts with a growing number of third-party administrators (TPAs) enable them to drive the market – by feeding capital into their infrastructure to work multiple market segments.

For civil society practitioners, the need for good business practices to compete and survive has never been greater. One tell-tale sign is the shift in their thinking and priorities since 2000. Then “insurance”, “risk”, “capital” and “reinsurance” were the key words, compared with the current “enrolment”, “hospitals”, “RSBY” and “TPAs”. And, in 2021, could they be “care”, “competition”, “scale”, and “subsidy”?

The value chain is now more dynamic, with few instances where all players are profitable. NGOs/MFIs previously in partner-agent models are testing community-managed mutuals or trusts. Insurers in partner-agent arrangements are testing direct distribution. Success appears to require strong affinities and a sponsor/aggregator with a long-term commitment.

One of the biggest pitfalls observed was how demand had been overestimated. Surveys on demand should be compared with the results of past enrolment drives. To stay on the course charted in the business case, a strong management team with sound sector knowledge is essential, as are good distribution and cost controls. A link to primary care reduces hospitalisation, while public health measures reduce primary care costs.

Scale is important, and it is doubly hard to gain the required scale, say a million members, in a voluntary programme with no subsidy – or even with government or donor subsidies, which virtually all health schemes in India now have. The question remains as to whether health microinsurance is viable at scale if unsubsidised.

Lessons learnt
— Do not take demand for granted; segmentation is key.
— Government-subsidised schemes have an advantage, but this does not guarantee the requisite scale.
— Competition is inevitable – including from public schemes, which are generating awareness and improving clients’ ability to opt for quality and value.
— Technology and efficiency of processes are keys to the future; the human touch, particularly door-to-door distribution, will become increasingly expensive.

Figure 7

MILK – Approach to business case

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Intermediary</th>
<th>Delivery channel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability factors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Age</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Scale</td>
<td></td>
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<tr>
<td>— Business model</td>
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<tr>
<td>— Voluntary/Mandatory</td>
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<tr>
<td>— Product type</td>
<td></td>
<td></td>
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<tr>
<td>— Subsidy</td>
<td></td>
<td></td>
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<tr>
<td>— Distribution method</td>
<td></td>
<td></td>
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<tr>
<td>— Competition</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Objective</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Understand if there is a business case for microinsurance and if so, under what conditions.</td>
<td></td>
<td></td>
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<tr>
<td>Business case definition</td>
<td></td>
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<tr>
<td>There is a business case when the investment of capital and other resources in microinsurance are justified over time such that the benefits, costs and risks balance out to create a commercial rationale for an insurer, distributor, and intermediary to enter and sustain a position in microinsurance.</td>
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</tbody>
</table>

Existing literature represents a fairly robust “how to”, but provides few conclusive answers about “whether” there is a business case for microinsurance or “why” a profit motivated firm should enter the field. MILK

Source: Koven, Richard. Presentation “Business practices in micro health insurance: Observations from a recent trip to Karnataka and Maharashtra, India”. 7th International Microinsurance Conference 2011
Parallel session 3

Expanding distribution

This session reviewed issues related to three distribution themes, and the case of a network of community banks in Brazil adding microinsurance to its financial services for members.

At the outset, participants were given the chance to vote for three out of six distribution themes identified: establishing and maintaining customer trust; product features that work; using mobile phones for distribution; point-of-sale marketing; capitalisation plans (a lottery component added to financial products in Brazil); client value and business case. The three receiving the most votes were then discussed. The outcome is summarised below.

**Mobile phones for distribution**

There are a variety of models and means of payment in the market, two of which show particular promise: airtime, and mobile wallet. Examples of the former are Cover2go (South Africa) and Kenya Orient’s Safari Bima and, of the latter, MTN’s (Metropolitan Telecommunications Network) Mi-Life (Ghana).

**Cover2go (South Africa)**

- **Model**
- **Airtime**
- **Insured risks**
  - US$ 1,827/accidental death
- **Premium range**
  - US$ 1.21 for 30 days

Cover2go was set up by MTN in 2006 as a division to serve the lower-income segments that may not traditionally have access to insurance or do not want to make use of a broker. Cell-phone-based distribution is one of three non-agent channels it uses – in addition to retailer-based Shoprite and vendor-based Wiredloop.

The cell phone product covers accidental death to the value of ZAR 15,000 (US$ 1,827) for a 30-day period for a premium of ZAR 10 (US$ 1.21), deducted from the available airtime on the policyholder’s phone. New clients only have to send an SMS with their name and national identity number. Cover2go then sends a reply via SMS to the policyholder’s cell phone number to confirm activation. The confirmation SMS contains the policy number, requests clients respond via SMS to register the name of a beneficiary, and reminds the policyholder of the need to inform the beneficiary about the life insurance.

**Safari Bima (Kenya)**

- **Insured risks**
  - US$ 1,190/accidental death
- **Premium range**
  - US$ 0.35 for 24 hours

Kenya Orient’s Safari Bima uses the same approach but offers a 24-hour cover of KES 100,000 (US$ 1,190) for a premium of KES 30 (US$ 0.35).

In both cases the airtime-based premium collection has proved to be costly, with a 40% fee charged by a wireless access service provider (WASP) on each transaction to collect the airtime and convert it to currency.

**Mi-Life (Ghana)**

- **Insured risks**
  - Life cover US$ 350–1,400
- **Premium range**
  - US$ 0.70–3.50 per month

In Ghana, MicroEnsure’s mobile insurance product called Mi-Life – distributed by MTN (Metropolitan Telecommunications Network) – allows premium payments to be deducted from the “m-wallet” monthly, and customers receive an SMS notifying them the premium has been deducted and their insurance cover renewed (see Figure 8).

27 — Left to right: Anja Smith, Cenfri, South Africa; João Joaquim de Melo Neto Segundo, Palmas Institute, Brazil.

28 — Brandon Mathews, Zurich, Switzerland.
The mobile phone mechanism is good for communication and premium collection. It also turns data collection into a routine, low-cost and complementary activity, and could be a replacement for traditional market surveys – though it carries the risk of others accessing client information. The main question, however, is: How can it be an enabler for the sales force when needed – since, apart from simple covers, unfamiliar insurance products require a face in the sales process.

Point-of-sale marketing
Point-of-sale (POS) marketing offers retail shoppers an additional product or service at the checkout. The offer may be prompted by the cashier, or the shopper’s attention may be attracted by a display at the cash register or a separate booth.

An example of the former is the “small change” insurance sold at Carrefour stores in Colombia. The Personal Accident Rounding-Off policy, underwritten by Colseguros, is also pitched by Carrefour on its web page: “What can I do with my change at Carrefour? At Carrefour the rounding-off is up to you. When you buy something at our stores, the cashier will always offer you the opportunity to buy life insurance for you or any other member of your family (with your change).”

Carrefour receives a commission for distributing this microinsurance and collecting premiums. The level of the 30-day cover is proportional to the amount of change: for example, US$ 650 for US$ 0.20.

A good use of display is the blister-pack marketing of Cover2go’s funeral insurance in Shoprite stores. The Cash-back Funeral Policy is unique in that policyholders’ premiums are all paid back at the end of the five-year term if they neither die nor let the policy lapse.

To be successful, point-of-sale marketing requires that customers have basic product familiarity, a well-known brand, and a good call centre in the back office – for capturing client information, and servicing.

One benefit of cash collection in a retail setting is that the insurer is able to serve unbanked sectors.

It was feared that POS, by prompting impulsive purchases, would have poor retention rates – but retention is actually high.

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**Figure 8**
**MicroEnsure – Mobile insurance**

<table>
<thead>
<tr>
<th>Mi-Life Insurance: distributed by MTN Ghana</th>
</tr>
</thead>
<tbody>
<tr>
<td>— Life insurance sold via Mobile Money</td>
</tr>
<tr>
<td>— Policy bought, managed, claimed on phone</td>
</tr>
<tr>
<td>— Distributed by dedicated agents in MTN</td>
</tr>
<tr>
<td>— Undercuts other life insurance prices by 50–90%</td>
</tr>
<tr>
<td>— GHS 1 = US$ 0.70</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Monthly premium to cover 2 persons</th>
<th>Insurance cover per person</th>
</tr>
</thead>
<tbody>
<tr>
<td>GHS 1</td>
<td>GHS 500</td>
</tr>
<tr>
<td>GHS 2</td>
<td>GHS 750</td>
</tr>
<tr>
<td>GHS 3</td>
<td>GHS 1,000</td>
</tr>
<tr>
<td>GHS 4</td>
<td>GHS 1,500</td>
</tr>
<tr>
<td>GHS 5</td>
<td>GHS 2,000</td>
</tr>
</tbody>
</table>

Source: Mathews, Brandon. Presentation “Expanding distribution: Emerging consumer”. 7th International Microinsurance Conference 2011
Product features that work

The discussion yielded a number of tips for practitioners on product features that work:

**Make benefits more tangible.** Future contingent money is difficult to imagine or comprehend. Provide in-life continuous benefits rather than a one-off pay-out. Examples include Mapfre’s food benefit and Zurich’s hospital cash.

**Accept payment by instalments.** They make credit work, and will make insurance easier to take up. Zurich Bolivia, for example, has developed more advanced processes for handling highly irregular cash flows, eliminating fixed dates.

**Keep the product simple, limiting options to choose.** Make it easy to understand, with no hidden terms. Some choice, clearly explained, is good; a lot of choice is baffling. Single, anchor-risk products (e.g. funeral cover) gain greater acceptance than composite products.

A case of financial literacy expanding distribution

Unlike many MIFs, the community banks affiliated with the Palmas Institute (PI) of Brazil do not focus on microentrepreneurship for borrowers, at least not initially. The initial loan – 20% of which is tied to the government’s social welfare Bolsa Familia payments – is about financial literacy. Clients are exposed to general financial concepts to understand the lending and repayment process. Upon repayment, they can go up the lending ladder, with each rung involving a bigger loan, more focus on a business plan and more education provided by the institute.

In November 2010, PI incorporated microinsurance – underwritten by Zurich – into its financial offerings and education. The expectation is to have 100,000 policies sold by the end of 2012.

There are 52 PI-affiliated banks throughout Brazil. They offer loans for local production and consumption with low interest rates and no requirements for registration, proof of income, or guarantor (neighbours guarantee the borrower’s reliability). With a belief that lack of financial inclusion is the main cause of poverty, PI believes that the community has the capacity to handle, integrate and manage various financial products, and is capable of creating a network of “prosumatoren”, where the residents are simultaneously the producers, consumers and actors in their own social transformation.

Founded in 1998, PI created a local currency, “palmas”, to keep the spending within the community, preferably on community-made goods and services. Altogether the 52 member banks assist almost one million people in the country.

Lessons learnt

— The mobile phone is good for communication, premium collection and data collection, but could it be an enabler for the sales force in cases where face-to-face explanation of insurance is required?

— Point-of-sale marketing may prompt impulsive purchases, and retention ratios are very difficult to track or control in over-the-counter products. Product features that work include tangible benefits, instalment payments, a simple design with few options to choose from.

— There are trade-offs between limitations aimed at value and their impact on cost and innovation (flexibility).

— In disadvantaged communities, an MFI needs to give priority to the financial education of clients, even before offering them credit for a microenterprise or micro-insurance for protection.
To manage risk, the poor have long relied on informal mechanisms that, more often than not, prove ineffective. Microinsurance offers them a formal option for protection they can count on. Yet demand for it is low and increasing slowly, which is commonly attributed to high premiums, liquidity constraints, and a lack of financial literacy. This session discussed two alternative reasons for low demand and the impact of formal insurance on informal risk-sharing networks.

The trusted-neighbour effect
A study of demand for typhoon insurance in the Philippines, carried out by the Microinsurance Innovations Program for Social Security (MIPSS), showed that informal trust-building is strongly correlated with a household’s willingness to engage in the insurance contract.

Trust in the insurance company can be viewed as the probability that the insurer will pay the claim if a household experiences an insured loss. It can be built through formal institutions, for instance a regulatory framework, but also informally through a household’s or its peers’ experience with claims. Only if trust is high enough is the household willing to pay the insurance premium.

The study finds that knowing peers with claims indeed correlates with the uptake of insurance. In fact, it is the most important determinant, explaining 10% of the variation in enrolment. This means that, in the short term, involving peers with claims can be beneficial for the marketing of microinsurance schemes. In the long term, it is important to build formal trust through a solid legal and regulatory framework, and by offering insurance through existing financial institutions that have already built a reputation.

Aversion to basis risk
A second reason for low demand, especially among the most risk-averse, is basis risk. Basis risk in this context means that insured clients may experience uninsured losses.

Agricultural insurance exemplifies this case. Traditional, indemnity-based approaches to crop insurance, with a pay-out in the event of a loss, were prone to fraud and moral hazard. This led to the introduction of weather derivatives, in which claims are contingent on the amount of rainfall. Because the amount of rainfall and the losses that households actually experience are not perfectly correlated, households are left with the risk of sustaining uninsured losses.

29 — Richard Phillips, Georgia State University, USA.
30 — Karlijn Morsink, University of Twente, Netherlands.
31 — Daniel Clarke, University of Oxford, UK.
32 — Andreas Landmann, University of Mannheim, Germany.
In an experiment, 378 Ethiopian farmers were asked whether they wanted such insurance. Because this was an experiment in the lab with a monetary pay-off, it was possible to make normative statements about demand— that is, whether and for whom it is rational to take out insurance.

Participants were told that they faced four possible outcomes: both the weather and the yield could either be good or bad. They were then offered either traditional indemnity insurance, paying out if the participant had a bad yield, or index insurance, paying out only if the weather had been bad, regardless of a farmer’s yield. Before knowing the outcome, they had to decide how much insurance to buy.

As predicted by economic theory, the study found lowest demand among the poorest participants, who were most averse to basis risk, and richest participants, who were less likely to purchase any commercially priced insurance policy (see Figure 9). The study concluded that index insurance is a fundamentally bad product if the basis risk is too large, and that making good decisions about how much indexed insurance to purchase is very difficult.

Informal risk-sharing networks

A third study presented discussed the extent to which insurance affects social transfers. In the absence of formal insurance, the poor rely on informal risk-sharing networks to cope with shocks. Community members, for instance, support one another in the event someone incurs a loss. (Micro)insurance might crowd out informal transfers (see Figure 10).

This study of social transfers and insurance was done in a laboratory setting in the Philippines because social transfers outside the controlled environment of an experiment are difficult to measure. In the experiment, 466 household representatives played a game.
In this game, people were assigned to solidarity groups of three participants. Each of them received an endowment that they could partly or almost fully lose by chance. They were then told how much their peers lost, and how much (if any) they would like to transfer to their peers. A random half of the participants were ex ante offered the option of contracting insurance that covered losses. Among those offered such insurance, 46% bought it.

Insurance significantly reduced net transfers from the better- to the worse-off and did not, therefore, improve the distribution of outcomes or reduce the “poverty” risk. Participants with the option of hiding their wealth redistributed significantly less. In their case, insurance did not further crowd out transfers and significantly reduced the poverty risk.

These studies point to the need for more research in both the field and the lab. Field and lab studies are complementary in at least two ways. First, different designs of interventions can be tested in the lab and the more robust ones can be selected for field piloting. Second, lab experiments help unravel the black box of impact evaluation, addressing why certain interventions have certain effects.

**PAID plan: A natural calamity insurance in the Philippines**

**Number of people insured**
130,000 households from the two poorest sections of Philippines society

**Insured risks**
Residential damage due to typhoon, maximum US$ 228 pay-out

**Premium range**
250 pesos (US$ 5.70) per annum

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**Lessons learnt**

— Both a lack of trust and large basis risk are reasons why the poor do not take out insurance.

— Formal insurance may crowd out informal transfers, especially if peers can observe one another’s wealth.

— Field experiments in the laboratory are an important complement to observational studies.

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**Figure 10**

How are informal risk-sharing networks in developing countries affected by the introduction of formal (micro)insurance?

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Source: Landmann, Andreas and Frölich, Markus. Presentation “Saving and microinsurance: Why you should do both or nothing. A behavioural experiment on the Philippines”. 7th International Microinsurance Conference 2011
Plenary 2

Academic track:
Is low take-up a rational choice?

Demand for insurance differs across products and contexts. But is take-up the appropriate measure of a programme’s success? How can we determine whether high or low take-up is the rational choice? The session addressed these two questions.

Low take-up and microinsurance: Lessons from US insurance markets

Over the years, schemes in the United States have suffered from low enrolment rates and dealt with high distribution costs when trying to reach the poor. Insights from the US experience can be used to increase demand for microinsurance products.

Is not insuring common in other insurance sectors and products?

A number of USA insurance lines have high take-up rates, for instance among homeowners, compulsory auto liability, subsidised health insurance, and life insurance.

Other products in the USA face low participation rates. These are markets for long-term care, renters, flood, political risk and earthquakes – large risks that people are aware of and that can be insured, yet people are not buying insurance for them.

Why do people not buy insurance? Is this economically rational?

These low participation rates are often attributed to (perceived) high costs on both the demand and supply sides. On the demand side, credit constraints that keep clients from borrowing the premium may explain why take-up remains low. Also, risk perceptions play a role – consumers may not see the value of insurance if their perception of risk is not as high as the actual risk.

On the supply side, information problems, distribution costs as well as undiversifiable risks pose challenges to insurance providers. Insurance is complex and intangible and a difficult concept to sell, and this contributes to high design and distribution costs.

What have we learnt from experience with public and private solutions in the USA? Can take-up be improved?

A number of public and private solutions have been tested in the USA. Importantly, these solutions point out the need to provide both carrots and sticks; the combination of mandatory purchases and subsidies seems the most effective way to raise demand. Creating an insurance market alone does not guarantee participation.

Another lesson learnt from US history is the importance of the involvement of private insurance providers for small-to-medium contract values. They have been able to reach the poor through innovations in marketing and distribution. An important example of such innovation is the group health insurance contracts that are offered through employers. Enhancing take-up is hence possible, but there are caveats. As the scale of a sector increases, subsidies initially targeted at the vulnerable will go to large-scale businesses. This has, for instance, happened to agricultural insurance schemes (see Box 3). Further, the existence of (subsidised) insurance preserves existing high-risk properties. Following a flood, for instance, insurance clients may decide to rebuild their house in the same high-risk location.

Experiences from developed countries can guide the development of the microinsurance market. The combination of carrots and sticks boosts penetration. Not only subsidies and mandatory requirements but also private sector provision have been successful. An important warning from US experience is that once programmes are in place, they are difficult to remove. So it is essential to choose programmes carefully and make sure they do what they are intended to do.
Box 3
Public insurance initiatives in the USA

- National Flood Insurance (since 1968): 50% participation in high-risk areas, little purchase outside risk areas
- Crop Insurance (since 1938): Participation was around 20% in the 1980s but has risen to 70%–90% from 27% in 2003 to 58% in 2005
- Terrorism Risk Insurance (since 2002): Penetration was raised to 80%–90% in 2003 to 58% in 2005
- California Earthquake Insurance (since 1996): Penetration plummeted from 32% in 1996 to 11% by 2009

Private US market approaches

- Life and disability insurance in the 19th and early 20th centuries
- Industrial life insurance
- Fraternal insurance
- Private earthquake insurance

Liquidity constraints and insurance for the poor: Experimental evidence

Liquidity constraints have implications for insurance take-up. It might be rational for the poor not to take up insurance if they need to pay the premium up front.

To determine what level of insurance coverage is rational, economists use a framework called “utility maximisation”, as illustrated in Figure 11. The figure plots the level of satisfaction – utility – for two persons (the green and black lines) as a function of wealth.

Utility has two properties:

- If you have more money, you feel happier. The positive slope of the utility functions reflects this property.
- When relatively wealthy, the increment in satisfaction is smaller than when poor. This is why the slope of the functions is diminishing in wealth.

In this framework, it is optimal for the person with the black utility function to take out insurance. To see this, assume that an uninsured person earns either US$ 80 or US$ 100, depending on the toss of a coin. The graph shows the satisfaction level from these two options – U (US$ 100) and U (US$ 80). The green dotted line is the average utility level for an uninsured person.

Full, actuarially fair insurance would cost US$ 10 in this case, and insured individuals earn US$ 90 with certainty. The grey dotted line in the middle indicates the utility level associated with this dollar amount. It is higher than average utility without insurance, the green dotted line, and this means that it is rational to take out insurance.

A similar exercise can be done for the person with the black line. Again, for this person, it is optimal to take out full, actuarially fair insurance.

Figure 11
Framework of utility maximisation

In the presence of liquidity constraints, which are very real for the poor, the insurance premium, however, competes with investments. For instance, when deciding how much insurance to buy, crop farmers should take into consideration that they have fewer resources to plant if they take out insurance. In that case, it is rational to buy only low insurance coverage.

A lab experiment at Georgia State University mimicked crop planting and insurance decisions in a setting of liquidity constraints. This method provides high internal control, making it possible to answer precisely the question on hand. It is nevertheless important to study whether such findings generalise to settings outside the lab.

In the experiment, participants were asked how much wealth they wanted to allocate to crops and how much to insurance. Credit constraints, indeed, reduced demand. Although the results were somewhat mixed, the wealthier – whose constraints are not as tight – took more risk.

Liquidity constraints can be relaxed by subsidies, microcredit, or mutual assessment insurance. Mutual assessment insurance providers do not collect the premium up front but assess and insure losses ex post.

The experimental study tested this latter type of insurance. Take-up of insurance remained low. An important question for further research is why mutual assessment insurance does not seem to relax the credit constraint.

**Lab tests to augment, not replace, field research**

As academics, policy-makers and practitioners work together on further developing the microinsurance sector, it may seem on occasion that a “Babel Fish”\(^2\) would come in handy to help them understand and communicate with one another. Theories too complex to be clear to non-academics need to be brought down to earth, while practitioners could gain by honing operating and strategic decision-making so that they can hold water theoretically.

Lab experiments in rich countries may not seem of any use when focus groups in the real developing world can, at first sight, deliver required results. There is a growing realisation, however, that a diversified portfolio of methodologies – from (field) lab experiments to RCTs, structural models and focus groups – produces findings that are more relevant, valid and reliable. A lab experiment helps fine-tune theory and questions to be addressed in “real life” test runs in the field.

Finally, if low take-up is a rational choice, the burden of liquidity constraints needs to be unravelled. Timing the premium payment outside festive occasions or the start of school (when fees are due) could be one way of easing those constraints. More financing options would help too. And there may be other ways that further research can unveil.

**Lessons learnt**

- Take-up rates have increased in the USA due to mandatory requirements, subsidies and involvement of the private sector.
- Once programmes are in place, they are difficult to remove, so it is important to make sure they remain on target.
- Liquidity constraints make low take-up rational among the poor. How can they be reduced?
- Academic research provides a diversified portfolio of methods that, when used together, will help improve understanding and development of microinsurance markets.

\(^2\) The tool that is used in “The hitchhiker’s guide to the galaxy” to communicate with foreigners in different languages.
<table>
<thead>
<tr>
<th>Parallel session 5</th>
<th>Parallel session 6</th>
<th>Parallel session 7</th>
<th>Parallel session 8</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Technology in microinsurance</strong></td>
<td><strong>Workshop on success factors for PPP in microinsurance</strong></td>
<td><strong>Impact assessment: Methodologies, case studies and trends</strong></td>
<td><strong>Protecting the poor against natural disasters – case studies</strong></td>
</tr>
</tbody>
</table>
| Wladimir Chinchio  
COO, Vayon Insurance Providers, Brazil  
How the cell phone and POS can help the insurers in the obtainment of efficiency and scale in microinsurance operations | Brandon Mathews  
Head of Emerging Consumer, Zurich Financial Services, Switzerland  
Part 1  
The private sector perspective | Daniel Stein  
PhD student, London School of Economics, United Kingdom  
Impact evaluation and product design of weather insurance: What can we learn from evaluations? Experience from the field | Karljen Morsink  
Researcher, University of Twente, The Netherlands  
Value for farmers from meso-level index insurance? |
| Martin Fuller  
Chief Technology Officer, MicroEnsure, United Kingdom  
Utilising technology to improve customer service and efficiency in microinsurance programmes | Lambert Muhr  
Agricultural Insurance Expert, Munich Re, Germany  
Part 2  
The public sector perspective | Daniel Clarke  
Researcher, University of Oxford, United Kingdom  
Sarah Janzen  
PhD student, University of California, Davis, USA  
Facilitator  
Stefan Dercon  
University of Oxford, United Kingdom | Lourdes del Carpio  
Sub-Director Agricultural Insurance, La Positiva Seguros, Peru  
Agricultural catastrophic insurance for poor farmers in Peru |
| Sunil Bhatla  
Programme Director, CIRM, India  
Integrated livestock risk management solution | Maria Victoria Sáenz  
Lead Project Specialist, IDB, USA  
Antonis Malagardis  
Project Manager, GIZ-MIPSS, Philippines  
Part 3  
Managing microinsurance partnerships | Rupalee Ruchismita  
Executive Director, CIRM, India  
Defining the steps in building ownership in designing a sustainable meso-level flood insurance product for Bangladesh | |
| Peter Gross  
General Manager, MicroEnsure, Ghana  
Reaching the poor at scale through mobile phones | Part 1  
The private sector perspective | Anuj Tyagi  
Head of Corporate and Rural Agri Business, HDFC ERGO, India  
Bundle insurance products to meet the needs of low-income households | |
| Facilitator  
Michael McCord  
President, Microinsurance Centre, USA | Part 2  
The public sector perspective | Facilitator  
Thomas Loster  
Chairman, Munich Re Foundation, Germany | |
|  |  |  |  |
“It is amazing how each new conference edition is able to provide a range of new experiences and innovations even after years dedicated to micro-insurance learning. The use of technology in micro-insurance definitively is the way to achieve quick and efficient process.”

Regina L. G. Simões, Superintendência de Seguros Privados – SUSEP, Brazil

Participants at this session discussed how to harvest technology when improving microinsurance products, services, prices, and getting massive outreach. The session covered various technologies, from using mobile phones to sell life insurance to biometrics and RFID (radio frequency identification) for livestock risk management solutions.

**Improving service and efficiency**

A presentation on MicroEnsure’s use of technology to improve customer service and efficiency brought home the point that a microinsurance organisation should see technology as an enabler, supporting achievement of business goals and objectives. Technology should never be used just for the sake of using it. Its role can vary from organisation to organisation; what works in one need not apply to another. The use of technology should meet certain requirements (see Box 4).

The presentation summed up MicroEnsure’s experience with technology as “the good, the bad and the ugly” – or learning lessons the hard way. One main lesson is the value of making large investments in technology up front. MicroEnsure initially decided to utilise the existing technology of its founding organisation, Opportunity International, from 2005 to 2008. That, however, resulted in issues with data integrity, limited data validation, and reaching the system’s performance constraints. Over the following two years, as its business expanded, it added data exchange functionality and implemented automated claims processing – only to eventually face backlogs on data entry and product development constraints. Now Micro-Ensure is investing in an advanced core administration system with a common interface for all products driven largely by mobile distribution. The system is designed to grow with the organisation – but will there be smooth sailing in 2012 and beyond?

Some real-life examples of technology enabling microinsurance concern programmes in Ghana, Tanzania and the Philippines. At KNUC (the Kilimanjaro Native Cooperative Union), the main challenge was how to collect enrolment data in the Kilimanjaro region. MicroEnsure decided to use iPods equipped with a camera and GPS device to accurately match photos and GPS coordinates taken at the moment of enrolment. The iPods do not use the internet; synchronisation occurs back at the office.

Technology has a huge potential to facilitate efficiency and customer service improvement. Technology does not always need to be complex to be effective, but it needs to be designed or chosen with the specific needs of microinsurance in mind. Technology should always respond to the needs of the business and follow the process – not the other way round – and be tested through appropriate use of pilots (see Box 5).
Box 4
Requirements for technology

— Support efficient and effective business processes
— Support all required product areas and processes
— Facilitate good quality customer communication and service
— Be fast, robust and reliable
— Be flexible to respond to new/changing needs
— Provide easy and clear access to business data
— Be available at the right cost to the organisation

Box 5
Microinsurance businesses need technology that

— supports efficient and effective business processes;
— supports all required product areas (health, crop, life, etc.) and processes (policy inception, claims processing, etc.);
— facilitates good quality customer communication and service;
— is fast (enough), robust and reliable;
— is flexible to respond to new/changing needs;
— provides easy and clear access to business data;
— is available at the right cost to the organisation.

Managing livestock risk electronically

Income derived from livestock involves a higher risk, as death of cattle means asset erosion and a permanent income loss. In India, the Centre for Insurance and Risk Management (CIRM) has designed a comprehensive package of livestock insurance, animal husbandry services, grass-roots monitoring, community linkage and other services leveraging technology at various stages. This comprehensive package was very effective in reducing the mortality and morbidity rates in insured animals. This comprehensive cover, along with improved animal identification techniques (using RFID tags), has reduced the claims ratio significantly.

One of the main challenges for livestock insurance is how to identify whether an animal was actually insured at the time of a claim. Also, while deworming and vaccination were required to reduce the risk, there was no systematic check or control establishing that insured animals had been dewormed or vaccinated. There is some indication that these loss prevention services, though effective, are not particularly valued.

With that in mind, the CIRM decided, together with its partners, to use technology to improve the product and processes. The innovation was organised around seven themes (Table 6).

Table 6
CIRM product/process innovation

| Use of RFID tag | Accurate identification; stores cattle data history |
| Health services with insurance | Deworming and vaccination; health history maintained |
| Electronic cattle registration | Reduced paperwork, immediate policy issuance |
| 85% coverage | Deductible protects against moral hazard |
| Integration of systems | DNE, KGFS, HDFC ERGO |
| Claims process | Verification of genuineness by KGFS |
| Lower premium | Taking into account cost of risk reduction measures |

Source: Fuller, Martin. Presentation “Utilising technology to improve customer service and efficiency in microinsurance programmes”. 7th International Microinsurance Conference 2011

Source: Bhatla, Sunil. Presentation “Livestock risk management solutions”. 7th International Microinsurance Conference 2011

37 — Martin Fuller, MicroEnsure, UK.
These innovations together created added client value:

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Immediate policy issuance – a first for India</td>
<td></td>
</tr>
<tr>
<td>RFID tagging, insurance deductible and local relationships virtually</td>
<td>eliminated fraud</td>
</tr>
<tr>
<td>Risk reduction services helped reduce mortality to 1.33% (national</td>
<td>average 4%)</td>
</tr>
<tr>
<td>Doorstep services saved farmers time</td>
<td></td>
</tr>
<tr>
<td>Speedy claims settlement (7–10 days)</td>
<td></td>
</tr>
<tr>
<td>Claims ratio of 33% (national average ~100%)</td>
<td></td>
</tr>
</tbody>
</table>

Low take-up is still a key challenge for this scheme. One reason is that the premium is considered high for indigenous cattle, another that clients benchmark the premium against other (cheaper) types of insurance – particularly one the government introduced at 50% subsidy. How a private insurer can survive in this environment of subsidised competitors is a strategic challenge for the CIRM programme. Meanwhile, its focus is on using technology at different stages of the business process to allow it to charge the lowest non-subsidised premium in the country.

### Reaching the poor at scale through mobile phones

One could call it a mobile insurance boom in Africa. The continent has the lowest insurance penetration in the world, but 12 “live” products are thriving with increasing mobile phone coverage and early success in mobile money.

A presentation by MicroEnsure outlined some clear advantages mobile insurance has over traditional insurance models. It improves customer access, as 50% of the global poor have a mobile phone. Financial transactions are faster, cheaper, easier and safer, and can involve international remittances as well as MFIs. Telecoms provide efficient marketing, enrolment and administration. What is more, consumers’ trust in the insurance scheme builds on the reputation and familiarity of telecoms.

Mobile insurance networks in Africa include the insurance providers, telecoms, and facilitation partners such as MicroEnsure. The latter has launched three life m-insurance products in the past year.

### Mobile life insurance: Mi-Life, MTN, Ghana, and Tigo

<table>
<thead>
<tr>
<th>Family Care Insurance, Ghana, Tanzania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of individuals insured:</td>
</tr>
<tr>
<td>500,000 active customers</td>
</tr>
<tr>
<td><strong>Insured risks</strong></td>
</tr>
<tr>
<td>Life of client and one family member.</td>
</tr>
<tr>
<td>MTN: US$ 350–US$ 1,500. Tigo: Based on monthly airtime usage (Figure12).</td>
</tr>
<tr>
<td><strong>Premium range</strong></td>
</tr>
<tr>
<td>MTN: US$ 0.35–US$ 1.75 per month. Tigo: Free.</td>
</tr>
</tbody>
</table>

Source: Gross, Peter. Presentation “Reaching the poor at scale through mobile phones”. 7th International Microinsurance Conference 2011

### Figure 12

**Tigo Family Care Insurance**

Tigo Family Care Insurance means that if you or your registered family member were to pass away, your family would receive an amount of money based on your Tigo airtime usage during the previous month. Cover is renewable monthly; it does not accumulate.

<table>
<thead>
<tr>
<th>Use at least this much Tigo airtime in a month...</th>
<th>...get this much life insurance for you and a family member – for free!</th>
</tr>
</thead>
<tbody>
<tr>
<td>GHS 5</td>
<td>GHS 200</td>
</tr>
<tr>
<td>GHS 10</td>
<td>GHS 400</td>
</tr>
<tr>
<td>GHS 15</td>
<td>GHS 600</td>
</tr>
<tr>
<td>GHS 25</td>
<td>GHS 800</td>
</tr>
<tr>
<td>GHS 40</td>
<td>GHS 1,000</td>
</tr>
</tbody>
</table>

GHS 5 = US$ 3

Source: Gross, Peter. Presentation “Reaching the poor at scale through mobile phones”. 7th International Microinsurance Conference 2011
The enrolment process is fast and simple: the agent in the store or market registers the client on the phone, and Tigo sends monthly SMS (short message service) notes to inform clients of the amount of insurance earned (see Figure 12). Simple messages help telecoms keep their customers. Clients “earn” insurance as long as they stay. Even “free” mobile insurance creates a business case.3

Looking ahead, mobile insurance faces three challenges:

— Mobile money penetration is still very low in many African countries
— Despite sophisticated underlying technology, mobile insurance should have a simple value proposition for clients
— Conventional underwriting excludes patients with, for instance, HIV/AIDS, which goes against mobile scale

Perspectives should change. Telecoms need to see insurance not merely as an airtime promotion but as something with a broader rate of return. Mobile insurance is more than simply a mobile payment.

Insurers should keep in mind the risk that telecoms will stop pushing the product. Insurers should also not use existing processes or products, plan for large scales from the start, and design simple products.

“Scale requires simplicity, which is justified by scale.”

Using POS to insure villagers in the middle of the Amazon

POS (point-of-sale) technology together with cell phones holds a huge potential for microinsurance operations. A presentation highlighted this potential in Brazil where, even though the population is rising, there are more active phone lines than people – a vast base for technology to enable insurance transactions.

Unique in Brazil is the large number of existing POS devices in all regions, which are being used even by street vendors. Also, the number of transactions carried out with a plastic card (eighth billion) is enormous, and suggests a means for insurance payments.

Microinsurance faces five challenges that may be overcome by harvesting technology: fostering accessibility, the channel, enrolment, billing, and relationships (see Figure 13).

3 Illustrated by the slogan “Use more Tigo, get more insurance”.

Figure 13
Challenges to be overcome

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Accessibility</th>
<th>Channel</th>
<th>Enrolment</th>
<th>Billing</th>
<th>Relationship</th>
</tr>
</thead>
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<tr>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less integration = Better efficiency</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

Technologies to help address

<table>
<thead>
<tr>
<th>Cell phones</th>
<th>Bar codes</th>
<th>POS (point of sale)</th>
<th>Social network</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Chinchio, Wladimir. Presentation “How cell phones and POS can help the insurers to obtain efficiency and scale in microinsurance operations”. 7th International Microinsurance Conference 2011
The more complete a solution, the greater the efficiency. But integration processes bring higher costs and lower efficiency, so a crucial challenge is how best to inject technology into the chain.

Using mobile phones and POS devices, insurance products can even be sold in a fishing village in the middle of the Amazon. Even there, data can be sent via SMS to and from the central infrastructure. The technology offers integrity in capturing data in a reasonable manner, and not having to use paper is a great advantage.

Customer relations greatly benefit if frequent messages are sent, as Bradesco Seguros does. Its product, Bradesco Protection Easy Access, is distributed throughout places where people are already going for daily transactions.

When selling insurance, the only information needed is someone’s social security number, the code of the desired product, a mobile phone number and a zip code. The information is entered at the POS, which connects to the central infrastructure to validate the data, and then prints the policy. The customer – by regulation – signs the policy, and keeps one copy.

This POS technology costs US$ 0.50 per policy sold. For Bradesco, it has not only reduced costs and increased efficiency, but also created a communication channel to improve customer relations and education.

Addressing concerns

When technology requires an internet connection, providers in more rural areas where connectivity is a challenge cannot harvest it. A large number of solutions do, however, exist that can work without connectivity – for example, transmitting information by text messages and synchronising the systems at the end of the day. Another concern is the time it takes to implement technology and to train people using it. Good project management helps. MicroEnsure had its new systems up and running from the start within seven months, and Bradesco Seguros used even less time.

Scale is important. Often, technology becomes affordable only when it is used in high volumes. These economies of scale imply that products should be simple, that advertising budgets have to increase, and that education has to be emphasised, for instance through push text messages, in-store brochures and word-of-mouth.

A “Technology in Microinsurance Survey” conducted in the session, using the iPod technology introduced by MicroEnsure, showed participants have implemented technology equally often for most phases of the microinsurance process except claims administration. Participants in the survey listed mobile as the most exciting future technology development for microinsurance.

Lessons learnt

— Technology is an enabler for microinsurance and should never be a goal by itself.
— Technology requires, at times, large investments up front.
— Livestock risk management also greatly benefits from technology.
— Mobile insurance requires the parties involved – telecoms, insurers and facilitators – to acknowledge long-run rates of return and the need for large-scale but simple products.
— “Scale requires simplicity, which is justified by scale.”
Parallel session 6 Workshop on success factors for PPP in microinsurance

Microinsurance development involves high start-up costs and, initially, low premium income. Governments, donor agencies and other partners can help reduce these costs through financial and technical assistance. How to make such a public-private partnership (PPP) effective for weather-related catastrophic risks was the focus of this workshop. In the process, participants went over the definition and characteristics of a PPP, viewed the private-sector and public-sector perspectives, took a closer look at three key issues in smaller groups, and concluded with a review of managing microinsurance partnerships effectively.

What a partnership involves

A PPP is based on a contract between at least one public sector authority and a private party, in which the private party provides a public service or project and assumes substantial financial, technical and operational risk in the project. The rationale for a PPP is that the partners have common goals which may be reached more efficiently if they join forces in cooperation rather than individually. Cooperation is limited to a specific target. Partners can contribute their own resources and competencies to the know-how, operations and technology required (see Box 6).

As PPPs are built upon the respective strengths and competences of all the parties involved, they should ideally strive towards synergies to create win-win situations for all actors along the value chain (see Table 7).

Box 6 Who benefits?

Public partners

Governments can

- optimise public spending through risk transfer to private (re)insurers, thereby having more funds available for other disaster and preventive measures while leaving enough room for disaster victims;
- reduce government reliance on ex-post donor funding;
- increase their social responsibility and focus on the most needy persons/victims.

Donors can

- gain technical knowledge;
- leverage their limited budgets and substitute a calculable annual commitment to a financial risk transfer system for the unpredictable granting of post-disaster aid;
- meet their objectives of reducing people’s vulnerability, thus contributing to the Millennium Development Goals (MDG).

Private partners

Insurance providers can

- explore a new field of business and access an unfamiliar market in a shorter period of time and at reduced transaction costs;
- learn about participatory methods of product design;
- improve their understanding of microinsurance;
- initiate a different way of thinking within the company;
- enhance their reputation and ensure their own commercial success by investing in the enhanced quality of microinsurance services;
- benefit from activities by the public partner that go beyond their core business.

Delivery channels – commercial businesses (e.g., technology providers) – can

- enter a new market (insurance through mobile phones, call centres, etc.);
- gain higher recognition – benefits for other businesses;
- have access to other institutions – networking for potential new business.

Delivery channels – civil society (NGOs, MFIs) – can

- offer innovative products and services;
- stabilise their member base;
- expand their capacity and professionalism;
- have access to additional funding through enhanced acceptance among other public and private actors.

Vulnerable population should be the ultimate beneficiary due to

- enhanced ex-ante and ex-post protection;
- availability of affordable catastrophe insurance backed by strong regulatory incentives to buy such insurance.

Source: Ramm, Gaby and Reinhard, Dirk. Presentation “Success factors for PPP in microinsurance”. 7th International Microinsurance Conference 2011
### Table 7

<table>
<thead>
<tr>
<th>Public partners</th>
<th>Private partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governments, incl. regulators and supervisors</td>
<td>Establishing suitable frame conditions/ legal environment, disaster prevention policies, regulating index products, etc.</td>
</tr>
<tr>
<td>Public disaster prevention (e.g. forest departments, urban planning dept., meteorological institutions)</td>
<td>Enhancing infrastructure for disaster prevention</td>
</tr>
<tr>
<td>Public research and educational institutions</td>
<td>e.g. research on climate change, training of officers and other delivery channels</td>
</tr>
<tr>
<td>Donors, incl. international funding sources (e.g. climate adaptation funds)</td>
<td>e.g. initiating new products and delivery mechanisms, exploring and supporting new approaches in disaster reduction and mitigation/climate adaptation</td>
</tr>
<tr>
<td>Insurers/reinsurers</td>
<td>Private sector can bring in core competencies for shaping innovative and sustainable solutions and therefore play a vital role in disaster insurance – not only for corporate social responsibility, but also their own business interests</td>
</tr>
<tr>
<td>Private delivery channels (e.g. brokers and agents, TPAs, technology providers, call centres, suppliers and retailers)</td>
<td>Insurance education (realistically limited role), selling insurance, premium collection, MI operation, incl. assisting in claims settlement</td>
</tr>
<tr>
<td>Non-governmental delivery channels (e.g. MFIs, NGOs, other intermediaries)</td>
<td>Insurance and risk management education, selling insurance, premium collection, MI operation, incl. assisting in claims settlement</td>
</tr>
<tr>
<td>Other partners</td>
<td></td>
</tr>
<tr>
<td>Data providers/meteorological institutes</td>
<td>Data provision for product design, maybe monitoring of index</td>
</tr>
<tr>
<td>Private partners in disaster prevention (e.g. constructors/builders)</td>
<td>Improving infrastructure for disaster prevention, if feasible with participation communities and civil society</td>
</tr>
</tbody>
</table>

Source: Ramm, Gaby and Reinhard, Dirk. Presentation “Success factors for PPP in microinsurance”. 7th International Microinsurance Conference 2011
Munich Re presented a critical analysis of the role of PPPs in agricultural (micro) insurance, citing their use and performance in China, India, Brazil and Mexico, and concluding that their economic viability proves highly problematic. While the specific challenges of agricultural risks make public intervention indispensable, current solutions under-utilise the role of the private market.

Mexico has publicly supported mutuals parallel to PPP-linked regional programmes. With a market uptake of 10%, it is a stagnating, diverse system that crowds out the private sector. Brazil’s programme, providing (co-) financing of premiums and losses, is more a public guarantee than insurance, and covers 30% of small family farmers. India’s yield and weather index crop insurance is taken by 20% of farmers and faces ongoing challenges of economic viability and basis risks. China’s huge programme is traditional indemnity-based individual crop insurance, based on self-administration of pseudo-aggregates representing 25% of crops.

To help resolve drawbacks of the existing programmes, the presentation proposed a conceptual framework for a PPP in agricultural insurance (see Figure 14) – “a one-stop shop for micro, meso and macro”. Such a PPP is the framework, not the solution, and a system, not a product – applying to all, while its components need to be designed according to the needs of beneficiaries (as set by policy goals). The framework would specify roles and benefits for each stakeholder: government, insurers, farmers and banks.

What the public sector thinks

The public sector’s view of PPPs was presented by the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB) and Microinsurance Innovations Program for Social Security (MIPSS), managed by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) in the Philippines.

MIF, focused largely on micro- and medium-sized enterprises and small farmers, is the largest technical assistance provider to the private sector in Latin America and the Caribbean, allocating US$ 100m per year to projects of average size US$ 1m. Nine out of ten of its local partners are from the private sector or civil society.

For natural disasters, there is no PPP but MIF’s parent, IDB, has a set of integrated financial instruments, including a disaster prevention fund. It believes that prevention and environmental factors must be a part of any PPP.

MIF’s three critical core attributes are

— a rigorous emphasis on results measurement and impact evaluation;
— knowledge-sharing and transfer – with a unit devoted to successful models;
— a focus on three access areas: basic services, finance, and markets and capabilities.

The agenda for the basic-services priority includes building capacity for PPPs: mainly enabling governments to develop and administer PPPs effectively. A challenge MIF sees is that there are no adequate instruments, policies and practices in national and sub-national governments to design and manage PPPs. An opportunity it sees is that private-sector management and capacity can increase service delivery, reduce public-sector costs, and enhance governments’ roles.

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**Figure 14**

PPP in agricultural (micro)insurance? Conceptual framework

1. Integrated with policy goals and legally implemented
2. Public regulation and co-financing of premium and cat. losses
3. Comprehensive, effective risk transfer at standardised terms
4. Open to all farmers
5. Co-developed, operated and distributed by private sector based on economic principles

Source: Muhr, Lambert, Presentation “PPP in agricultural (micro)insurance. Theory and practice”. 7th International Microinsurance Conference 2011
Parallel session 6
Workshop on success factors for PPP in microinsurance

GIZ-MIPSS in the Philippines supports the development of an enabling environment for index-based crop insurance, natural catastrophe insurance, and social health insurance for the informal low-income sector. It fosters innovations to the existing credit-life insurance schemes and forges multi-stakeholder partnerships in the promotion of microinsurance – the efforts of several public and private actors being needed to help microinsurance take root.

As GIZ has not been the only donor agency helping out, it set an early example of collaboration. In the planning phase of working with the private sector, GIZ and the Asian Development Bank, through the Japanese Fund for Poverty Reduction (JFPR), harmonised their interventions. Joint workshops are now scheduled frequently for key local stakeholders, including regulators and other government entities.

The extent and scope of interest and commitment the public-sector players have generated among the private-sector participants are reflected in the four examples of existing PPPs (see Figure 15).

In the Philippines, stand-alone and add-on PPPs have both worked well. The partnership with Munich Re for nat cat insurance is stand-alone, while partnerships with pawnshops, BPI Globe BanKO and BAC are add-on, bundling accidental death and fire insurance with indemnity-based property insurance.

The factors cited by development agencies and government sponsors as being key to the success of microinsurance PPPs in the Philippines include the following:

— Clarify at an early stage the roles and responsibilities of private and public partners.

— Assign product development and distribution to the private sector, while financial education and awareness in addition to capacity building are tasks of the public partner.

— Allocate the marketing role to the private entity but remember that, on occasion, it may need support from the public partner.

Pursuing a microinsurance partnership: Why and how

Participants were divided into three groups, each of which discussed one issue before reporting back to the plenary. The points raised and findings reviewed are listed below.

Why are there few PPPs in microinsurance?

PPPs are not yet prevalent in microinsurance markets. Generally, entrants into the low-income niche from the private sector approach government on regulatory matters and donor agencies about funds and technical assistance. The public sector’s attention and spending are focused on disaster relief and reconstruction, with PPPs being used for building or rebuilding infrastructure.

At the user’s end, too, insurance for catastrophes, involving high risk and low frequency, is not generally of interest to the poor because their focus is on more immediate daily concerns. Index insurance pilot projects have shown that even those who live in disaster-prone regions and suffer damage are often dissatisfied when the basis-risk trigger is not met and there is no pay-out. Catastrophe microinsurance needs to be linked with add-on services such as prevention to make it worthwhile to the poor.

Figure 15
GIZ-MIPSS: A champion in PPPs for MI – Four examples

GIZ-MIPSS provides nationwide MI advocacy and capacity-building

Munich Re developed together with GIZ a nat cat insurance product against loan default of around 1,800 coops under CLIMBS – a composite insurer – in the event of excess of rain or wind. Triggers for 1,700 municipalities available

Cebuana Lhuillier Insurance Solution (CLIS) with 1,400 pawnshops as MI distribution channels

BAC (Malayan Group) to underwrite and distribute MI through drugstores

BPI Globe BanKO to distribute MI through a mobile cellular platform

Source: Malapardis, Antonis. Presentation “Process and success factors of developing public-private partnerships for microinsurance in the Philippines”. 7th International Microinsurance Conference 2011
When it comes to alliances and partnerships, practitioners mostly think of MFIs and NGOs which could help access the low-income segments and serve as a distribution channel. Public-sector decision-makers use PPPs to improve conditions for the poor through various economic and market development initiatives but – a few exceptions aside – not including microinsurance. None of the many PPP projects designed by MIF, for example, has dealt with microinsurance or even insurance. It does not figure prominently on the list of tools intended to eradicate poverty.

Microinsurance practitioners and a number of public-sector entities do have common goals, but they have yet to think of achieving them jointly through a partnership which gives them both ownership and a stake in the results. They need to start a dialogue.

How can preventive measures help start a PPP?

Natural catastrophes are rising in number and frequency. Public spending for disaster relief and reconstruction can be reduced through programmes aimed at prevention and environmental care undertaken with the help of private-sector resources and expertise.

Building disaster resilience at the local and national levels requires an infrastructure to engage and educate the low-income sectors. Adding microinsurance to these awareness campaigns and to the available services will make more effective use of the infrastructure and reinforce public acceptance and response. Insurance with prevention will eventually help reduce relief and reconstruction costs – aside from keeping premiums low. Adding prevention will also help offset the difficulties stand-alone catastrophe insurance involves because of low frequency and the correlation to actual damage after the shock.

Public financing of prevention research and educational programmes will enhance the knowledge base and risk management culture among potential customers. Prevention, mitigation and coping strategies are specific shared objectives, and a demand for them can spur the dialogue for a partnership.
How bundling services drives a PPP

Since stand-alone index-based (micro)insurance against weather-related risks may dissatisfy customers who suffer a loss but will not receive a pay-out if the trigger is not met, bundling additional services with the insurance product could increase acceptance. Each party then has a direct stake in the partnership’s success. Services that may be required as a complement to insurance may include information on crop prices in the market, agricultural advice, and offers of discounted seeds and fertiliser.

Such a PPP can function as a catalyst for additional players to enter the microinsurance market, and test new opportunities that might otherwise not be attempted due to a lack of knowledge or resources.

There are a number of cases of bundled products and services in various markets that have served to launch and strengthen public-private collaboration. These examples will lend credence to arguments in a dialogue (see Figure 16).

Rio Grande suffers from weather risks such as drought, flooding and hail that are intensified by the El Niño phenomenon. State government implements a risk management seed-swapping programme called PTTS (Programa Troca-Troca de Sementes) for small farm holders. PTTS is subsidised by state government and supplies farmers with certified maize seeds. State government added area-yield index insurance through the Municipalised Risk Group (see Box 7).

Box 7
Municipalised Risk Group

— Department of Agriculture
  Launching the insurance programme, granting subsidies to insurer (remaining premium paid by farmers), establishment of internet platform (AgroNet for data transfer), consolidation of data and reporting back to Agro Brazil Seguros

— Brazilian Institute of Geography and Statistics
  Data provider for decision on possible pay-out

— Private (re)insurers
  Product development and risk carrier role

— AgroBrasil Seguros,
  A private risk management agency providing support to (re)insurer in development and implementation of agro-rural risk management solutions: establishment of delivery channels (e.g. trade unions, farmers’ associations) and AgroNet for data transfer to Dept. of Agriculture, client education (could be further linked to agricultural advisory services/IFAD)

— Clients
  Small farmers

Figure 16
Brazil – Index insurance linked to farmers education

Source: Ramm, Gaby and Reinhard, Dirk. Presentation “Success factors for PPP in microinsurance”. 7th International Microinsurance Conference 2011
How to manage partnerships

An analysis of seven partnership case studies – in India, Kenya, Pakistan, Peru, the Philippines and South Africa – has yielded a number of tips to follow (see Box 8).

First, there should be a pre-agreement process – involving a collaborative dialogue to build trust, and an assessment checklist to guide discussions – which provides a foundation for the partnership.

A memorandum of understanding or contract should include details of the partnership structure, well-defined operational roles and responsibilities, objectives, time-frames and budget. It is also important to include an agreed approach to the handling of potential conflicts. And, like a good investment plan, a partnership agreement should have an exit strategy – a termination process carefully executed to avoid misunderstandings with clients and other stakeholders.

For implementation, partners should create a joint business plan and develop the required systems integration and reporting processes, as well as an appropriate incentive structure.

There should be a formal communications protocol, especially for joint reports or releases. Within each partner organisation there should be a process enabling management to communicate decisions to the operational levels.

Product development should be collaborative, even if the insurance risk is borne by only one party.

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**Box 8**

**The most successful microinsurance partnerships have**

- a long-term commitment to developing sustainability;
- realistic goals and expectations that provide sufficient value to all partners (which need not necessarily be direct financial gain);
- flexibility, especially around problem-resolution and change.

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**Lessons learnt**

- A pre-agreement process, conflict-handling approach and exit strategy should be as much a part of managing a partnership as a contract, joint business plan, product development and communications protocol.
- Do not underestimate the complexity of a new product and the need for it to be really understood by all parties involved.
- Create realistic targets in microinsurance outreach – “not so fast as planned”.
- Easy access to the product can be facilitated through technology and the use of internet-based or mobile cellular platforms.
- Bundling of “easy” products with “complex” ones can bring advantages.
- Integrate a new product carefully in order to avoid crowding out the established mechanisms with a “professional” product.
- Financial literacy means educating, not marketing – and advocacy signifies convincing, not selling.
- To build momentum in agricultural (micro)insurance, the first priority should be to develop the agricultural sector itself. Risk-transfer mechanisms should be added only after access to financing, markets and technology have been facilitated.
Parallel session 7
Impact assessment: Methodologies, case studies and trends

“No evidence of impact is not the same as evidence of no impact.”
Daniel Clarke, Researcher, University of Oxford, United Kingdom

This session was directed at academics and practitioners, addressing the importance and challenges of microinsurance impact assessment. It looked at premises of impact evaluations and case studies, and was followed by an exchange of ideas among participants.

Why is it important to measure impact?
Stakeholders need to know whether a programme produces the intended outcomes relative to the resources spent and other possible interventions. This includes donors, who must prove that specific social mandates have been met through measurable indicators.

Are people better off today than they were before having the product? Economists answer this question by examining the counterfactual: What would have happened if these people had not been offered the product?

Impact evaluations measure the degree to which a programme has impacted people’s lives based on selected indicators. Well-being is subjective in the sense that indicators chosen are relative to the questions being answered.

There must be a point of comparison, a before and after, to establish a baseline. Ideally, this should include a sample population that does not have access to the product, and some element of randomisation.

No single method is “the best” or applicable to all cases. Studies range in complexity and cost. And some risks pose particular challenges.

Regardless of the method, an evaluation that establishes a baseline at the beginning is imperative. Portfolio size alone is not a measurement of impact.

Baseline guidelines
— It should include all locations with an appropriate sample size, and sample areas where the product is not offered as a point of comparison.
— Incorporate a simple element of randomisation: double the target number of locations; pick half for implementation and the other for baseline comparison.
— What if products are mandatory? Or, for ethical reasons, nobody can be excluded? Use initial implementation area as baseline and evolve with roll-out. Or use borderline areas with similar characteristics.
— There are many creative solutions!

It is equally important to understand what impact assessments cannot demonstrate, and the need to complement them with other methods. They are powerful tools in terms of benefits and outcome. But they will not reveal costs, whether a programme has been well designed or why it succeeded or failed.

Other methods can be more appropriate and less expensive as regards addressing a broad gamut of issues. Table 8 outlines some of the areas where impact evaluations can be most important.

43 — Sarah Janzen, University of California, Davis, USA.
44 — Left to right: Stefan Dercon, University of Oxford, UK; Daniel Clarke, University of Oxford, UK.
Case studies

**Index-based livestock insurance (IBLI), Kenya**

**Number of contracts**
Approximately 1,250 (households may have multiple contracts)

**Insured risks**
Drought insurance for livestock mortality

**Premium range (without subsidy)**
US$ 4.88 – 8.25 per cow per annum. (3.25% – 5.5% of average livestock value; two-tier premium based on degree of risk)

Launched in 2009, this joint project between the University of California, Davis, and the International Livestock Research Institute (ILRI) offers IBLI in regions of northern Kenya where livestock is people’s main source of income and principal asset. Premiums charged represent roughly 60% of the calculated amount, with the remainder subsidised by donors.

The study’s objectives were to assess welfare impacts, ex ante and ex post:
- Are insured households better able to cope with the effects of drought?
- What are the economic and social returns of an effective insurance programme?
- What are the behavioural effects?
- Can insurance help to “crowd in” finance?
- Will insurance prevent vulnerable (but currently non-poor) households from collapsing into poverty due to irreversible losses?

The evaluation integrated IBLI with an existing cash transfer plan, Hunger Safety Net Programme (HSNP), to help calculate elasticities of poverty reduction with respect to expenditures on cash transfers versus insurance subsidies (see Table 9). Obviously, anyone will be happy to receive a cash transfer, but buying insurance is much more challenging.

### Table 8
How do we learn about insurance?

<table>
<thead>
<tr>
<th>How do we learn about ...</th>
<th>Informal</th>
<th>Actuarial science (Statistics and finance and financial economics)</th>
<th>Applied econometrics (including evaluations)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design</td>
<td>● ● ● ●</td>
<td>● ● ● ●</td>
<td>● ● ● ●</td>
</tr>
<tr>
<td>Risk financing</td>
<td>● ● ● ●</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pricing</td>
<td>● ● ● ●</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fraud</td>
<td>● ● ● ●</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution</td>
<td>● ● ● ●</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td>● ● ● ●</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prudential regulation</td>
<td>● ● ● ●</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer protection legislation</td>
<td>● ● ● ●</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect on welfare</td>
<td>● ● ● ●</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Clarke, Daniel J. Presentation “Learning about microinsurance: Reflections from an actuary in academia”. 7th International Microinsurance Conference 2011

### Table 9
Assistance regimes to be evaluated

<table>
<thead>
<tr>
<th></th>
<th>Without HSNP</th>
<th>With HSNP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Without IBLI</strong></td>
<td>Type 1</td>
<td>Type 2</td>
</tr>
<tr>
<td></td>
<td>(Control locations)</td>
<td>(HSNP only locations)</td>
</tr>
<tr>
<td><strong>With IBLI</strong></td>
<td>Type 3</td>
<td>Type 4</td>
</tr>
<tr>
<td></td>
<td>(IBLI only locations)</td>
<td>(HSNP/IBLI locations)</td>
</tr>
</tbody>
</table>

Source: Janzen, Sarah A. Presentation “Insuring against drought: Lessons learnt from an impact assessment in Kenya”. 7th International Microinsurance Conference 2011
Indicators applied were standard headcount and poverty gap measures, asset (livestock) accumulation, child education, health, income, consumption and savings, lending and borrowing.

The implementation involved a few challenges:

**Remoteness of rural areas:** It was difficult to coordinate different partners and meet the schedule. ILRI visited each shepherd.

**Uptake:** The study assumed 66% from “willingness to pay” surveys. The initial uptake was 28%, and decreased in successive enrolment periods. To increase uptake, discount coupons were randomly distributed and experimental games played to generate informed demand.

**Level of trust:** People were reluctant to pay before seeing a pay-out; as time passes people lose interest.

**Lack of understanding:** After the first year, several basic questions were asked: “If no indemnity, do you expect to get the premium back?” 52% of non-buyers and 67% of buyers answered correctly. “What is the indemnity based on?” 54% of non-buyers and 57% of buyers answered correctly.

As for measuring impact, the first pay-out is in process but no short-term effects can be measured because a survey is not planned for another year. Besides, a bank is designing a product that will collateralise livestock: the challenge now is integrating Islamic banking components.

In the meantime, it is important to complement rigorous evaluations with qualitative monitoring and evaluation methods. Focus groups played an important role in understanding what people were thinking. Microinsurance by itself is not a complete risk management solution, and a key feature of this study is the integration of a secondary product, where the effects of each can be measured.

**Rainfall index insurance, SEWA India**

Number of people insured
718 households

**Insured risks**
Drought and floods, through rainfall index insurance

**Average premium (without subsidy)**
US$ 2 for main growing season (roughly June–September)

Rainfall index insurance designed to protect poor farmers in three districts of Gujarat, India, was launched in 2006, by SEWA (Self-Employed Women’s Association) in conjunction with the London School of Economics. The premium is US$ 6, but India’s National Bank for Agriculture and Rural Development (NABARD) subsidises 50%, and the research team provides further randomised discounts.

The study’s goals were to understand the impacts of insurance on the farmers: ex ante, can insurance change farmers’ behaviour to make them more productive, and ex post, does insurance help smooth consumption and prevent desperate coping mechanisms such as selling livestock or taking children out of school? The project also sought to understand what influences insurance demand: sensitivity to price, product design and marketing mechanisms.

The RCT (randomised controlled trial) evaluated 52 treatment villages and 50 control villages. Marketing of insurance was pursued only in treatment villages through individual-level randomisation methods, including discount coupons, videos, flyers, worksheets and BDM (Becker-Degroot-Marshak) scratch cards, where random individuals received random premium offers.

Indicators included: percentages of cultivated land using high-yield variety seeds and cash crops, farm profits (during insured season), consumption, farm investment in the next growing season, savings and transfers. Implementation challenges included:
**Trust:** There is trust in SEWA but less so in the product. People will not buy insurance without the certainty of receiving a pay-out if a shock occurs. There were no pay-outs in 2006 and 2007. Some villages were hard hit by rainfall in 2008, albeit below the policy trigger. A political decision was made to indemnify these villages anyway. Since then, the product and carrier have changed, with pay-outs made every year.

**Product design:** There have been continuous adaptations of design and insurance carriers. The 2009 improvements included increasing the parameters from one to three phases, adding four villages and increasing weather stations from three to 14. The current policy, underwritten by AICI (Agriculture Insurance Company of India) has five phases. But, despite yearly efforts to improve the programme, SEWA members are dissatisfied with it because of situations where they are impacted but do not fall within the parameters. Product design continues to be a challenge.

**Uptake:** Measures to accelerate uptake (particularly randomised discounts) increased uptake from 20% of households in 2009 to 60% in 2010.

For measuring impact, subsidies provided a better-sized research sample but a less meaningful source for understanding policy issues. They also leave unanswered questions: Can the product survive without subsidies? Do benefits justify subsidies?

Since 2006, six comprehensive surveys have been carried out, with 1,500 to 2,000 recipients in each round. There are abundant data and the results are still being analysed. An initial review shows little customer demand for the product, despite heavy promotion – especially when unsubsidised.

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**Lessons learnt**

- Donors must show measurable impact results from resources invested.
- Impact is important but assessments can range in complexity. Most are time-consuming and costly. A simple study with a baseline is the minimum required to make a statement of impact.
- Impact assessments have a specific function. They must be complemented by other methods that are quicker, cheaper and more effective in providing other types of information.
- Implementation challenges are inextricable factors in the evaluation process.
- Economists have differing opinions on methodologies for measuring economic and social well-being.
- If major policy decisions are made based on the results of impact evaluations, the evaluator should assess the quality of the programme, too. Otherwise the conclusion may be that “micro-insurance is not good” rather than “this is a badly designed product”.

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Among the most difficult microinsurance risks to qualify, quantify, evaluate and subsequently cover are natural disasters. Rio de Janeiro does not exactly come to mind when one thinks of disaster-prone areas, but it demonstrates the challenges of microinsuring natural disasters. It was here, in January 2010, that landslides – whose causes may not have been purely natural – left hundreds dead and thousands homeless. The repercussions for the largely uninsured communities affected were not, for the most part, buffered by any insurance mechanism. The case was a first-hand example of why microinsuring natural disasters can be daunting: extreme loss in geographically defined areas, risk-spreading issues, once-in-a-lifetime events eradicating lives and livelihoods, the intricacy of claim payouts, etc.

The session presented findings on the use of meso-level products to microinsure catastrophes, an example of microinsuring natural disasters in Peru and a case of microinsurance bundling.

**Meso-level indexing**

To offset the limitations of micro-level indexes, practitioners and academics have started to examine the value of meso-level index insurance.

### Box 9

**How a meso-level index works**

Meso-level index insurance provides a portfolio or group cover for an aggregator, such as a financial service provider, farmers’ association, trust, cooperative, input supplier, local government or NGO, based on an index. In turn, the aggregator retails its benefits to members through a variety of services.

“I fundamentally believe microinsurance needs to be looked at as a business and not as a charitable initiative. Only then would there be sustainability in what we do and only then will the effects be long-term and far-reaching.”

Anuj Tyagi, Member of Executive Management and Head of Rural and Agri Business Group

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A meso-level index is designed to trigger compensation against various natural disasters such as earthquakes, droughts or floods, which are pre-defined and indexed. Such insurance contracts are not based on real losses. Rather than being linked to indemnity, the pay-out is based on a predefined parameter (e.g. temperature, rainfall amount, earthquake magnitude, etc.). Relevant indices can include weather data, seismic measurements or satellite images. Usually, index values are interpolated and often they are computed (best proxy).

The meso-level product is not sold to individuals but to an aggregator to which the insured persons are linked (see Figure 17).

A key question is whether meso-level insurance has the potential to create value for an individual farmer or member of another group. For the product in the Philippines, for example, policies are written at the cooperative level, and cover torrential winds or high rainfall.

The insurance pay-out is based on the average accrued loan of the cooperative and various return periods. The pay-outs are expected to help cooperatives maintain liquidity in times of disaster and extend loans to their members. They also compensate farmers in trouble, who cannot afford instalments because of natural disasters.

The Microinsurance Network’s agricultural working group has identified nine functioning meso-level index insurance programmes worldwide: three in India and one each in Burkina Faso, Ghana, Haiti, Mali, Mexico and the Philippines. In addition, meso-level schemes are at the product design stage in Vietnam and Bangladesh. An objective of the Bangladesh programme is to pursue the embedding of insurance within the disaster management framework of the government.

**Box 10**  
**Peru’s PPP institutional framework**

**National government**  
Pays 100% of premium through a subsidy fund

**Fund Council**  
Defines insured areas, premium rates, risks covered

**Regional government**  
Decides what crops to insure and is the policyholder

**Insurer La Positiva**  
Retains part of the risk, transfers the rest to a reinsurer and pays for crop losses due to a catastrophe

**Insured risks**  
Drought, low temperature, hail, high temperatures, humidity excess, flooding, freezing, strong winds, plagues, diseases

**Number of farmers paid in 2010–2011**  
61,100

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**Figure 17**  
**Meso-level index insurance in context**

<table>
<thead>
<tr>
<th>Macro – Government</th>
<th>Cover for national calamities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meso – Aggregators</td>
<td>Cover for budgetary issues due to regional calamities</td>
</tr>
<tr>
<td>Micro – Farmers</td>
<td>Cover for income loss due to farm-level hazards</td>
</tr>
</tbody>
</table>

Source: Morsink, Karlijn. Presentation “Value for farmers from meso-level index insurance?” 7th International Microinsurance Conference 2011
Looking after poor farmers in partnership

Peru’s insurance company La Positiva, whose innovations include the first index insurance based on sea surface temperature (protection against El Niño), has experience in natural disaster microinsurance as an agricultural insurance leader in Peru.

Aside from the cyclical effects of El Niño, Peru is vulnerable to earthquakes, the one which struck in 2007 measuring 8 on the Richter scale. In terms of exposure to climate hazards, according to La Positiva, Peru is the world’s third most risky country – after Bangladesh and Honduras.

Of Peru’s 27 million people, 36.2% are poor, with 13% living in extreme poverty.

In rural highlands, where small-scale agricultural production is the main economic activity, 69% of people are poor and nearly 40% extremely poor. And they are hit hardest and helped least during or after natural disasters such as droughts, floods and extreme frost.

La Positiva’s agricultural catastrophe insurance is a public-private partnership (PPP), with players from national and regional governments and fund councils and with La Positiva as a private insurer. They are working together to protect the poorest farmers (see Box 10).

La Positiva’s catastrophe microinsurance is on a massive scale (as all farmers in regions designated by the Ministry of Agriculture are insured) and protects only against catastrophes (pay-outs occur when the yield is deemed to be 40% below the average historic yield). Loss adjustment is done by a random selection of 11 benchmark points in the insured area.

The partnership has proven to be a great success, as the number of insured poor farmers more than doubled from 2009 to 2010. It seems that government subsidisation of catastrophe insurance is a regional (Latin American), if not global, trend.

Bundling to facilitate the insurance decision

HDFC ERGO rainfall index insurance

People insured 110,000

Insured risks
Rain deficit for food grain and plantation crops

Premium range US$ 10–11

Unless compelled by way of a bundled product with a loan, an individual would buy insurance only if the perceived value exceeded the opportunity cost of purchasing it. The perceived cost is not only the premium but also what the person needs to sacrifice to buy insurance. This opportunity cost is much higher for low-income consumers, as they prioritise current consumption more than future benefits.

Based on this understanding gleaned from focus groups, HDFC ERGO of India offers rainfall index insurance bundled with a loan or other services offered by MFIs, NGOs and similar affinity groups in the rural and social sector – to one of which an insured farmer must belong. The scheme uses technology-enabled distribution and a platform to manage cash handling, along with a messaging service for policy and claims data updates.

The company is a 74:26 joint venture between the Housing Development Finance Corporation (HDFC) Limited and ERGO International AG, the primary insurance entity of the Munich Re Group.

India is the largest market in the world for agro-based weather insurance. Its estimated current size is US$ 260m, of which 95% is government-sponsored. It is expected to grow to US$ 1.95bn over the next five years.

Lessons learnt

— Agricultural catastrophe microinsurance is challenging but can work if the premium is subsidised in part or in full – for example, by a public authority.

— A public-private partnership may be the key to implementation of efficient agricultural catastrophe insurance and addressing the awareness and distribution challenges.

— Building on lessons learnt from other microinsurance products, bundling of microinsurance and microfinance products may exponentially increase outreach and take-up.

— Meso-level index insurance is complex and difficult, and the definition of an optimal index (understood and adopted trigger value) is key. It may be a valuable tool for increasing financial inclusion, buffering the impact of natural disasters, and improving poor, mainly non-urban, livelihoods.
## Agenda Day 3 morning sessions 10 November 2011

<table>
<thead>
<tr>
<th>Parallel session 9</th>
<th>Parallel session 10</th>
<th>Parallel session 11</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>How to assess client value</strong></td>
<td><strong>Distribution and value chain case studies</strong></td>
<td><strong>Consumer education: How to make mass media work for insurance education</strong></td>
</tr>
</tbody>
</table>
| Barbara Magnoni  
President, EA Consultants, USA | Preeti Mishra  
Associate Vice-President, Rural Business, ICICI Prudential Life, India | Sarah Bel  
Information Officer, ILO/Microinsurance Innovation Facility |
| Michal Matul  
Research Officer, ILO/Microinsurance Innovation Facility, Switzerland | Demand for microinsurance in India and its distribution through different intermediaries to low-income households | How to design successful marketing messages. Lessons from a recent study on behavioural economics |
| Bert Opdebeeck  
Microinsurance Programme Coordinator, BRS, Belgium | Ryan Lynch  
General Manager, MicroEnsure, Tanzania | Elizabeth McGuinness  
Director of Consumer Research, Microfinance Opportunities, USA |
| How to measure client value with social performance indicators | Choices in distribution: MicroEnsure case studies | Lessons learnt about how to make effective use of radio to present insurance education on a mass scale |
| Facilitator | Evandro Baptista  
Vice-President of AON Affinity Latin America, Brazil | Maria Elena Bidino  
Adviser, Institutional and Consumer Affairs, CNseg, Brazil |
| Alexia Latortue  
Deputy CEO, CGAP, USA | Utility company distribution | Experiences with a multimedia mass media campaign in Brazil |
| **Parallel session 12** | **Plenary 3** | **** |
| **National strategies to increase access: A joint country process** | **Round table on microinsurance in Brazil** | **** |
| Lemmy Manje  
Country Coordinator, ILO/FinMark Trust, Zambia | Introduction | **** |
| Tool kit for assessing capacities of insurers: Firm and country level application | Herman Smit  
Senior Researcher, Cenfri, South Africa | **** |
| Alejandro Díaz  
Director, Social Responsibility and Microinsurance, Fasecolda, Colombia | Golden bullets? Innovation lessons from Brazil | **** |
| The role of the Colombian insurance association for promoting microinsurance | Hernán Poblete Miranda  
Director of the IMR Program, LIMRA, USA | **** |
| Solange Beatriz Palheiro Mendes  
Executive Director, CNseg, Brazil | Microinsurance on demand: Innovative strategies for establishing distribution and communication channels | **** |
| National strategy for low-income insurance and microinsurance – The view of the industry | Eugénio Velasques  
Executive Director and Head of Microinsurance, Bradesco Seguros, Brazil | **** |
| The view of the industry | Bradesco Seguros – A case study in insurance for low-income people | **** |
| Facilitator | Regina Giordano Simões  
Technical Analyst, SUSEP, Brazil | **** |
| Brigitte Klein  
Head of Sector Project, Financial System Approaches to Insurance – Access to Insurance Initiative, GIZ, Germany | The regulator’s perspective on microinsurance in Brazil | **** |
| **** | Facilitator | Maria Victoria Sáenz  
Lead Project Specialist, IDB, USA |
Parallel session 9  How to assess client value

The client value of microinsurance, either direct or indirect, represents the added value of having insurance in comparison to other available risk-coping mechanisms. The value is realised either when claims are made, or as a result of behavioural changes caused by owning a policy and trusting that it will be honoured. For the product to have this value, clients should be better off with than without insurance. They should be sufficiently stimulated to continue purchasing the product, and to encourage friends to do so as well.

The session presented three different methods of assessing client value.  

**Social performance indicators**

In 2006, the Microinsurance Network started by developing financial performance indicators. In 2010, these were combined with social performance indicators for microfinance to form a set of SMART social performance indicators to be tested with microinsurance practitioners.

An exercise consisting of surveys, phone interviews and implementation with about 20 microinsurers followed, to ensure that the indicators represented reality and could be used.

In 2012, this set will be further validated and finalised. The framework will be integrated into existing financial performance indicators and will include a toolkit enabling the set to be implemented in any microinsurance scheme.

The underlying indicators and principles are summarised in Table 10. They focus on product value, service value, fair treatment of clients, the inclusion of beneficiaries, governance, and environmental sustainability.

**PACE: A tool to improve client value**

PACE is another tool for assessing client value. As reflected by the weighing scale in Figure 18, PACE focuses on microinsurance in relation to alternatives that provide protection for similar risks. The tool measures four key aspects of client value: product, access, cost and experience.

| Table 10  

Social performance indicators |
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Category</strong></td>
</tr>
<tr>
<td><strong>Principle</strong></td>
</tr>
<tr>
<td><strong>Indicators</strong></td>
</tr>
<tr>
<td><strong>Product value</strong></td>
</tr>
<tr>
<td>The microinsurer aims to provide appropriate risk-coping mechanisms for the less privileged</td>
</tr>
<tr>
<td>Incurred claims ratio*</td>
</tr>
<tr>
<td>Promptness of claims settlement ratio*</td>
</tr>
<tr>
<td><strong>Service value</strong></td>
</tr>
<tr>
<td>The microinsurer is responsive to its clients</td>
</tr>
<tr>
<td>Renewal ratio*</td>
</tr>
<tr>
<td>Promptness of claims settlement ratio*</td>
</tr>
<tr>
<td><strong>Fair treatment of clients</strong></td>
</tr>
<tr>
<td>The microinsurer and its agents treat their clients fairly and respectfully</td>
</tr>
<tr>
<td>Claims rejection ratio*</td>
</tr>
<tr>
<td>Complaints ratio</td>
</tr>
<tr>
<td><strong>Inclusion</strong></td>
</tr>
<tr>
<td>The microinsurance provider takes active steps to serve the excluded</td>
</tr>
<tr>
<td>Social investment ratio</td>
</tr>
<tr>
<td>Coverage ratio*</td>
</tr>
<tr>
<td>Poverty outreach ratio</td>
</tr>
<tr>
<td>Misc. outreach ratio</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
</tr>
<tr>
<td>The microinsurer has enabling institutional systems in place</td>
</tr>
<tr>
<td>Staff retention ratio</td>
</tr>
<tr>
<td><strong>Environmental responsibility</strong></td>
</tr>
<tr>
<td>The microinsurer acts in an environmentally responsible way</td>
</tr>
</tbody>
</table>

* Also financial key performance indicator

Source: Opdebeeck, Bert. Presentation “How to measure client value with social performance indicators”. 7th International Microinsurance Conference 2011
It is important to stress that PACE is not a substitute for demand or impact studies, but a tool to focus on improving value rather than proving it. Its main audience comprises the practitioners who aim to create better client value at various stages of the product cycle. Governments, donors, regulators and investors can also use PACE to design interventions that help improve the microinsurance market.

Every PACE dimension has four sub-dimensions (see Box 11), focusing on value for money but also affordability, and on whether the scheme has more to offer than just a fair price.

Box 11

**PACE framework**

**Product**
- Coverage, service quality, exclusions and waiting periods
- Sum assured in relation to costs
- Eligibility criteria
- Value-added services

**Access**
- Choice and enrolment
- Information and understanding
- Premium payment method
- Proximity

**Cost**
- Premium to benefit
- Premium to client income
- Other fees and costs
- Cost structure and controls

**Experience**
- Claim procedures
- Claims processing time
- Policy administration/tangibility
- Customer care


The tool builds on risk management preferences that clients require from microinsurance products. Clients want products to be appropriate, simple, accessible, affordable and responsive.

PACE assessments mainly rely on secondary data. Data are triangulated in order to draw conclusions, especially with client data. An analysis for one organisation takes from four to ten days.

PACE has been tested in composite schemes in Kenya, health insurance plans in India, and life insurance programmes in the Philippines, and is now used by more than a dozen practitioners.

The application of PACE faces three challenges: a lack of client data causes the analysis to be less rich; data collection on microinsurance competitors – alternative ways for the poor to manage risks – can be difficult; and the results need to be translated into action.

**How to assess client value?**

The **MILK way**

Microinsurance Learning and Knowledge (MILK) assesses client value by addressing two questions: Does insurance help protect people from large shocks (high-cost events) in comparison to other alternatives? To what extent is microinsurance effective in smoothing income?

To do so, MILK has completed literature reviews, a number of RCTs (randomised controlled trials) and other academic studies, and is currently employing a methodology called “client math”. In a 40-minute interview, MILK collects monthly income and expenditures, and asks people what they would have done in the absence of insurance.
Box 12
Quote from an uninsured client

“The death of my wife was very hard for all of us that were close to her. It was very painful to accept the reality. From the beginning, I did not know how I would pay for the costs of her burial, but her siblings, my in-laws and all of my family helped me and gave me the strength to try and overcome this.”

Source: Magnoni, Barbara. Presentation “How to assess client value”, 7th International Microinsurance Conference 2011

Without insurance, clients do find a way to cope with shocks (see Box 12). MILK addresses these alternative risk-coping strategies and looks for differences between the two types of client, but it is important to stress that MILK does not evaluate the causal impact of insurance.

MILK also explores to what extent clients have additional expenses beyond the coverage of the insurance package. In this way, it complements the other work that has been done in terms of client value. That is, “client math” provides a way to understand client value.

The three different ways of assessing client value discussed in the session each have their own purpose, and it is important to be specific about that. MILK is, for instance, working on construct validity – how does insurance create value – not assessing whether insurance creates value. As often pointed out in this conference, a mixed-method approach is needed in the end, combining RCTs with more in-depth studies such as “client math”.

In the long run, insurers have incentives to assess client value. Clients will not renew if a product does not deliver the value they are looking for. In the short term, however, incentives may not be well aligned, and competition in a regulated market is necessary to spur the creation of client value.

Lessons learnt

— Client value is defined in relation to existing risk management strategies.
— Social performance indicators, PACE and MILK’s “client math” are ways of assessing client value.
— Mixed methods, combining RCTs with in-depth studies such as “client math”, are needed to both understand and assess client value.
— Each method should be specific about its purpose: RCTs do not show how microinsurance creates client value; “client math” does not answer whether it creates client value.

49 — Left to right: Michal Matul, ILO/Microinsurance Innovation Facility, Switzerland; Bert Opdebeeck, BRS, Belgium; Barbara Magnoni, EA Consultants, USA.
50 — Alexia Latortue, CGAP, USA.
The session reviewed the role of distribution and other links in the value chain in three cases – from India, Tanzania and Brazil.

**Choosing the right distribution partner**

Since life insurance was privatised in India in 2000 and a new regulation prescribed that 20% of policies sold by an insurer must come from the rural/micro sector, ICICI Prudential Life has undergone three phases in its microinsurance distribution strategy and growth.

Initially, the company chose NGOs as its main distribution partners for the sale of mostly endowment products. But a low sales volume, poor persistency, and servicing challenges pointed to a problem: the lack of skilled manpower in NGOs.

The company then started partnering MFIs, with credit life the preferred product. This channel produced a high volume of sales, but there was less focus on customer needs and coverage of the low-income segments was limited. So distribution was diversified and more channels were engaged: regional rural banks, credit cooperatives, rural retail chains, and even a network of ICICI Prudential’s own micro offices, as many as a thousand in rural areas. The addition of credit life and retail products helped increase outreach to the under-privileged.

Now in the maturity phase, the company is emphasising business sustainability through greater service efficiency and a further increase in outreach. IT kiosks and other rural supply chain innovations have improved the client interface and the policy-administration and claims processes. Technology, using a group platform rather than individual sales, is a way of ensuring a sustainable presence in rural areas.

The channel mix now includes the tea gardens of Assam, and a new savings plan has been launched. Workers at the gardens have an average income of US$ 50 a month. They are unionised, but in need of financial education. ICICI Prudential Life experience shows that, in a marginalised market where trust and financial literacy are low, it is good to involve the community. If you go to consumers directly and start talking about insurance they become suspicious.

Professionally managed distributors with a large client base have worked well for the company – particularly if they interact with their customers at least once a month. On the other hand, organisations with no sales experience, or with numerous stakeholders who may slow down implementation have not worked so well.

**Dealing with the value chain dilemma**

MicroEnsure Tanzania addressed the value chain dilemma.

More than 90% of the insurance market is not covered in Tanzania. Does that amount to a massive potential? Fewer than 50% of the people have access to banking – which should not be taken to mean that they bank. There is no agricultural bank, but there are 26 insurance companies.

Compared to a per-capita premium of US$ 1,200 for a developed country, Tanzania has US$ 40. Everybody in the value chain must make some money – broker/sales channel, administrator, and underwriter. Their requirements add up to US$50, against the available premium of US$ 40. Beyond reducing costs, what kind of distribution approaches might solve the value chain dilemma?

Credit life – the low-hanging fruit – alone cannot make a microinsurance programme viable. Add scale and value, by providing covers such as funeral and property. People do want higher-impact products.

### Figure 19

**Channel evaluation**

<table>
<thead>
<tr>
<th>Channel</th>
<th>Outreach potential</th>
<th>Payment collection potential</th>
<th>Cost effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microfinance</td>
<td>Medium</td>
<td>Medium-high</td>
<td>High</td>
</tr>
<tr>
<td>SACCOs</td>
<td>Low</td>
<td>Low-high</td>
<td>Medium</td>
</tr>
<tr>
<td>Farming cooperatives</td>
<td>Medium</td>
<td>Low-high</td>
<td>Medium</td>
</tr>
<tr>
<td>Mobile</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Faith-based</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Affinity groups</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Retail</td>
<td>Medium</td>
<td>Medium</td>
<td>Medium</td>
</tr>
</tbody>
</table>

MPI and bank partnerships are limited. Utilise new channel partners, such as faith-based groups and cooperatives, but they may entail poor payment-collection mechanisms and data management issues, with leadership focused elsewhere. To avoid high marketing costs, they must be enabled as distributors of insurance. Grass-roots community groups can be effective but a lot more human-resource-intensive. Smart marketing calls for evaluation of a channel to assess its ability to capture market share and its potential to accommodate process-and-technology enablement (see Figure 19).

Aligning incentives with utilities

AON Affinity has a strong presence in Latin America. Its multi-channel offerings also include direct mail, POP, web, and door-to-door. Its five core segments are financial institutions, retail, AON Motor, affinity groups and utilities.

Before mass-marketing microinsurance, the company mostly offered high-cost products distributed through traditional channels to upper- and upper-middle-class segments. Now, it emphasises access – including 24/7 extended customer support – products designed according to customer profiling, and simplified premium collection. Its new channels include utilities which, its research pointed out, were looking for broader customer relationships. They also presented an opportunity to achieve scale through sizeable client concentrations.

Other advantages of using utilities for distribution are:

— Aside from sales and marketing, they can be part of client interactions in other aspects of distribution: policy administration and claims payment as well as premium collection.

— They can add insurance premiums to their own bills and provide a collection and payment platform, even with claims paid into the client’s utility account rather than bank account.

— They have substantial client information on hand, which can help the partner insurer to design targeted products.

Developing some products can provide an opportunity to align incentives of insurer and distribution channel. In Brazil, where AON Affinity began operations in 1998, it was able to do so through liability insurance for the utility against its clients’ unemployment, personal accident or disability.

Like other distribution channels, utilities are paid by the insurer for the services they provide. The amount and form of such payments can vary with the agreement struck.

Lessons learnt

— There is little room for customer-centric products if the insurer is interested primarily in increasing sales and its distribution partner’s focus is on earning high commissions.

— A multi-channel mix, in line with customer group profiles, is key to increasing outreach.

— Choose a professionally managed intermediary with a large client base and frequent customer interaction.

— A smart IT group platform can help extend and sustain rural presence for an insurer.

— Every player in the value chain must make money, but when the market is unable to yield sufficient premium, reducing costs need not be the only option; anchor-risk add-ons can deliver the needed scale and value.

— New channels with large customer concentrations can be cost-effectively involved in aspects of distribution in addition to sales, such as policy administration and claim payment.

— The value chain gains most when it holds win-win-win potential for insurer, distribution channel and clients.

51 — Left to right: Ryan Lynch, MicroEnsure, Tanzania; Craig Churchill, ILO/Microinsurance Innovation Facility, Switzerland; Preeti Mishra, ICICI Prudential Life, India.

52 — Evandro Baptistini, AON Affinity Latin America, Brazil.
Parallel session 11  Consumer education: How to make mass media work for insurance education

“We often discuss the lack of poor people knowledge of poor people, while insurers themselves don’t know this population and don’t understand the poor.”

Maria Elena Bidino, CNSeg

Three cases, involving the national insurance associations of Kenya, Brazil and Colombia, were analysed in the session to show how aggregating industry resources and delivering a uniform message can raise insurance awareness in low-income communities effectively. The session was organised through an innovative format – a talk show – that enabled a dynamic dialogue between the speakers and the participants.

The type of mass media used in the campaigns varied. In Kenya, radio was central, reaching approximately 10.5 million listeners. In Colombia, the project aims to compare the impact of radio in terms of knowledge and behaviour change with class-based training. In Brazil, radio and video are part of multiple methods being piloted to raise awareness of insurance in a low-income community of 4,700 people.

“A friend indeed”

Microfinance Opportunities (MFO) collaborated with the Association of Kenyan Insurers (AKI) to launch a pioneering effort to stimulate insurance culture through a national radio campaign for consumer education, called “A friend indeed”.

Its objectives were

— to evaluate whether the campaign builds the capabilities of low-income consumers to make informed decisions about purchasing and using microinsurance;
— to demonstrate how institutions can disseminate insurance education as a public good.

The medium chosen was radio because of its outreach: 89% of adults in Kenya get news and information from the radio. For some promotions, it may also be more cost-effective than television.

Top-ranked national and regional stations participated, potentially reaching 70% of Kenyans. Pre-recorded sessions were broadcast in Kikuyu and Kiswahili.

The content of the episodes in the 13-week campaign pursued 16 learning objectives designed to fill gaps in understanding in three categories (see Figure 20).

Audience participation was encouraged through weekly competitions: announcers posed questions based on weekly lessons. The first to call or text correct answers won KES 500 (US$ 6.15) of phone airtime.

Though the ultimate goal of an educational programme is to transform knowledge into action – linking campaigns to sales – AKI as an association had to forgo championing any products or companies. Impact evaluation showed increased awareness of insurance terms and a higher level of trust in insurance companies among listeners.

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Figure 20
Learning objectives by category

<table>
<thead>
<tr>
<th>Risks</th>
<th>Managing assets</th>
<th>Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>— Identify common risks and their consequences</td>
<td>— Identify ways to save</td>
<td>— Identify common myths</td>
</tr>
<tr>
<td>— Compare financial protection and reaction measures</td>
<td>— Identify which saving methods are most helpful in responding to emergencies</td>
<td>— Explain how insurance works</td>
</tr>
<tr>
<td>— Evaluate long-term impact of risks and their related coping strategies</td>
<td>— Identify guidelines for using savings or credit for an emergency</td>
<td>— Analyse costs and benefits</td>
</tr>
<tr>
<td>— Understand the importance of making financial decisions with all household members using good communication</td>
<td>— Understand the importance of making financial decisions with all household members using good communication</td>
<td>— Identify common terms</td>
</tr>
<tr>
<td>— Identify consequences of not renewing insurance</td>
<td>— Identify consequences of not renewing insurance</td>
<td>— Identify different types of insurance</td>
</tr>
</tbody>
</table>

Source: McGuinness, Elizabeth. Presentation “How to make mass media work for insurance education”. 7th International Microinsurance Conference 2011
Parallel session 11  
Consumer education: How to make mass media work for insurance education

“Estou seguro” – I am safe and protected

In Brazil the insurance confederation CNSeg launched a project called “Estou seguro” (I am safe and protected), in 2009, to build an informed client base in low-income communities. A multimedia approach for financial and insurance education was coupled with training of community brokers to sell policies.

The project was aimed at about 5,000 poorly educated, low-income people in Santa Marta, one of some 600 “favelas” (slums) in Rio de Janeiro’s southern region. It involved four different media: radio spots (eight); short film (one); street theatres (eight); and samba contest (one).

Community partnership – in everything from design to implementation – was vital; its leaders had to understand and authorise the project, and they later convened the community to identify the members most qualified to become brokers.

Industry buy-in was equally essential, enabling companies to enter the community and understand residents’ concerns. CNSeg successfully integrated a holistic group of industry players, including the Federation of Brokers, SUSEP (the regulatory authority), and Escola Nacional de Seguros (an insurance school).

Diverse methods were tested and evaluated, making the campaign more varied and entertaining. Participation of community members in street theatre productions and videos helped generate greater interest and appeal. There was also a contest for the composition of a samba dance on insurance. Flyers, posters and banners explaining the objectives of the project were used as a gate opener.

The videos presented real situations from the community of families that had experienced a loss and for whom having insurance had made a big difference. They were shown in areas with high concentrations of people such as at the cable car stop and in the central square, where people could ask questions and get answers.

A community radio station broadcast eight episodes of five minutes each. And eight different street plays were performed using a script on similar lines to the radio programme.

Initially, there was reluctance to incorporate sales in the project, especially since the principal objective was education. However, incorporating sales proved to be beneficial, as it strengthened industry involvement and understanding of low-income markets. There are now four trained brokers from the community who are trusted and respected by their peers. Impact surveys assessing changes in risk management knowledge and in the perception of and desire for insurance indicated that, for a campaign to be successful, a combination of media and interpersonal communication is critical. The media campaign had positive effects in terms of creating awareness, but content assimilation from mass media alone was low. The strongest effects occurred through informal conversations among residents and with promoters. This result also shows that, to have maximum impact, a mass media campaign should be pursued over a long period and with regular refreshers.

CNSeg has collected the lessons learnt from the experience and developed a methodological kit to enable an insurance company to produce its own consumer education strategy. The kit includes many tips on working with mass media producers and broadcasting radio and video programmes, as well as impact evaluation tools such as a baseline questionnaire, and is available on CNSeg’s website in three languages.

53 — Marla Elena Bidino, CNSeg, Brazil.
54 — Left to right: Sarah Bel, ILO/Microinsurance Innovation Facility, Switzerland; Elizabeth McGuinness, Microfinance Opportunities, USA.
55 — Jasmin Suministrado, ILO/Microinsurance Innovation Facility, Switzerland.
“Viva seguro” – Live safely

In 2007, Fasecolda, the Insurance Association of Colombia, launched “Viva seguro,” a national campaign aimed at delivering insurance literacy through a range of channels, including workshops and mass media. The project is designed to identify approaches which not only deliver quality financial education to the large number of low-income people, but also successfully promote changes in perceptions and behaviour towards risk.

The project has three phases:

— Research to identify mass media methods that best suit the profile of the target population
— Production and dissemination of educational materials through mass media and workshops
— Evaluation to assess the impact and sustainability of the various approaches

Radio was considered the best channel to use for the financial education campaign, as it offers the following advantages:

— It is a medium for information and learning (television is more for entertainment and relaxation);
— It generates trust with listeners, and accompanies them everywhere and at all hours, from kitchen to car;
— It allows easier segmentation of the audience and use of interactive platforms
— Its airtime costs less than that of television

However, Fasecolda learnt that it is important to complement a radio programme with other means of promoting and strengthening its key messages. In 2012, short messages will be disseminated by radio and television.

The campaign’s learning objectives are comprehensive and structured (see Figure 21). Savings, loans and insurance are evaluated as risk management mechanisms, examining the most effective use of each. Risks addressed include: death, disease and disabilities, unemployment, fire, earthquake and flooding. Products discussed include: life, funeral, personal accident, unemployment, home and mandatory auto insurance. All material incorporated feedback from surveys and focus groups.

Lessons learnt

— Insurance associations can play a vital role in building an insurance culture among low-income households and helping them define the most appropriate risk management strategies for the short, medium and long terms.

— Collaboration with communities is essential to developing buy-in and ultimate success.

— Industry support is critical. Before launching the campaign, the right products and sales infrastructure must be in place for advising clients and selling products. Linking educational programmes to the sales infrastructure is important, as it creates expectation. Results show that many people are willing to purchase a policy quickly after being exposed to an education campaign.

— It is important to leverage mass media through interpersonal communication and other mechanisms such as call centres and information kiosks in order to maximise the impact of educational messages.

— Identify the main interests of each community to generate involvement and enthusiasm: it could be by means of dancing, writing or painting.

— Transparency, consumer protection and financial inclusion must be part of any project.
Parallel session 12

National strategies to increase access:
A joint country process

This session looked at effective ways of formulating national strategies to increase the access of lower-income populations to microinsurance. Successful product design and delivery requires an in-depth knowledge of market realities, operational abilities and organisational structures. There is no one-size-fits-all strategy in microinsurance; specific market factors must be studied and the programme implemented with the participation of all players.

An analysis of a supplier capacity assessment, undertaken in Zambia in 2010 as part of the national strategy, and reviews of strategies pursued in Colombia and Brazil were presented in the session.

Building supply-side capacity

Zambia is following a typical national strategy, built on three pillars: stimulating demand, strengthening supply, and creating an enabling environment (see Figure 22). Insurers there have been slow in engaging in microinsurance, so a study was conducted to

— understand the capacity-building requirements of the 14 insurers;
— determine the best fit of operations, systems and resources for microinsurance business at both industry and individual company level;
— gain more insights into potential sources of risk aversion among insurers.

A diagnostic toolkit – funded by FinMark Trust, with technical inputs from ILO and Cenfri – was developed to assess: corporate buy-in, product portfolio, research and development capacity, marketing and sales capacity, customer care, consumer education, claims management, organisational capacity, staff resources and management information systems. A rating system was developed to determine the readiness and willingness of insurers to engage in microinsurance.

The study concluded that it is not enough to tell insurance companies that they must transact microinsurance; one needs an all-inclusive holistic approach to industry-building. Supplier assessment is critical at both the insurer and country levels. It determines an insurer’s readiness to provide microinsurance with its own space in the organisational structure. And, nationally, it identifies capacity gaps and helps design interventions, based on a clear understanding of market challenges.

Letting insurers themselves develop microinsurance

Unlike countries such as India and the Philippines, where the supervisor and regulator play an active role in promoting microinsurance, Colombia has mainstream insurance companies which, themselves, play the main role in the development of the low-income market.

They currently offer microinsurance products to 6.8 million clients. Though this number is still only about a third of the 20.5 million people who are below the poverty line in the country, premium growth in the sector is a remarkable 51%.

The national strategy appears to be to allow this growth to be spurred by the commercial interest of insurance companies in expanding their markets and developing new segments with a profitable and sustainable business scheme, without resorting to regulations in order to specifically encourage microinsurance.

Accordingly, the insurers’ association is undertaking activities to

— learn about the potential market through demand surveys;
— identify market behaviour by means of a monthly reporting system;
— develop communication campaigns to eliminate the paradigm of price as a barrier to insurance access;
— teach customers and society about insurance through a financial education programme;
— encourage self-regulation among member companies to protect low-income consumers.
Assessing and recognising the microinsurance potential

In Brazil, too, the industry association has been actively interested in helping develop the microinsurance market. The difference compared with Colombia is that these efforts have been aimed at a national strategy with a new microinsurance regulation as its centrepiece.

The new regulation, to become effective by the end of the year, will establish – among other provisions – a dedicated category of microinsurance brokers, while continuing to allow existing distribution channels to serve the low-income market.

The sector is huge. Of Brazil’s 128 million citizens who are considered low-income, some 55 million form a potential microinsurance client base. The insurance school, Funenseg, and the insurance industry association, CNSeg, commissioned an A2ii country diagnostic to look at the microinsurance market in Brazil, the drivers of its development and how this development could be shaped by regulation. The study proposes a strategy for the further development of the microinsurance market, with a specific focus on regulatory design. Among its conclusions is that Brazil has a sophisticated and well-resourced financial sector, which offers a ready distribution channel for microinsurance. It also has a widespread and cash-friendly mobile-technology-based payment system, providing complete access throughout the entire country for the payment of insurance premiums.

Lessons learnt

— A supplier capacity assessment is an important component of a national strategy for developing microinsurance.
— In markets slow to adopt microinsurance, understanding the sources of risk aversion among insurers is essential in order to develop appropriate interventions.
— In some markets, microinsurance development is due largely to the interests of private insurance companies and not to a specific regulatory regime. Even obligatory insurance schemes created by the government are often executed mainly by private insurance companies.
— Protecting people in extreme poverty is a task that may only be achievable with public-private partnerships.
— Insurance education based on innovative and market-specific techniques must accompany industry development, so that enrolment follows perceived demand.

Figure 22
Pillars of a national microinsurance strategy

Demand stimulation

Supply strengthening

Enabling environment creation

Pillar 1
Profiling demand, understanding market needs and creating awareness of the benefits of insurance and microinsurance products

Pillar 2
Understanding supply, mapping strategies to address gaps and implementing supply-side capacity-building interventions

Pillar 3
Understanding the regulatory environment, analysing regulatory requirements for microinsurance and developing an appropriate regulatory framework for microinsurance

Plenary 3  

Round table on microinsurance in Brazil

The plenary focused on the regulator’s perspective, innovation lessons (good as golden bullets?), a case study from Bradesco Seguros, and creative ways of establishing distribution and communication channels based on an anthropologist’s experience of living in shanty towns in the Philippines, India, Bolivia and Peru as well as Brazil.

Special insurance moment

For Brazil, this is a special insurance moment as its first microinsurance regulation is about to be approved. The process has been slow, and involved a great deal of discussion among stakeholders. The regulation is designed to be inclusive and geared towards low-income communities which, despite the improvement in socio-economic conditions, are still vulnerable to poverty. The first initiatives of SUSEP, the supervisory body, followed governmental guidelines. The idea was to create simplified and low-cost products for low-income families and formal and informal microentrepreneurs.

In 2004, SUSEP launched “popular insurance”, involving small amounts and targeting all kinds of customers. In 2006, there was a change of focus as SUSEP joined the Joint Working Group of the International Association of Insurance Supervisors (IAIS) and the Microinsurance Network. The documents produced by this working group helped create consistent guidelines for the regulation of microinsurance in Brazil. In 2008, the National Council for Private Insurance created the Microinsurance Consulting Commission, comprising representatives of both the public and the private sector, which paved the way for a series of studies and a bill relating to microinsurance, due to be passed in 2010 but postponed because of other political priorities.

In 2011, a work group was then created with the objective of formulating the new microinsurance regulation in Brazil, based on the existing core legislation, which is fairly flexible even though it restricts the provision of insurance to public limited companies (with the exception of cooperatives in the rural context). The work group concluded that there should be a resolution to establish the main guidelines for microinsurance. These were to address three main aspects: prudential, product, and market conduct.

Among other things, the work group proposes lower capital requirements for microinsurers (20% of the current base capital required), and the simplification of documents. It calls for a new, specialised category of microinsurance brokers, and for incentives to encourage new distribution models such as banking correspondents. The models include postal, lottery and other retail outlets that offer access to services on behalf of banks, making formal financial products accessible to both rural and urban communities.

A true partnership

No single strategy constitutes the golden bullet for successful microinsurance take-up, yet a partnership approach used by insurers in Brazil to successfully distribute simplified products to the low-income market comes close. The key lies in recognising the differences between selected distribution models, and the need for innovation across the product life cycle (product development, sales, premium collection, servicing and claims) to provide value.
Two models working effectively in Brazil’s insurance market serve as particularly good examples for others to follow: one involves utility and telecommunications companies, and the other retailers (see Figure 23).

As many as 98% of consumers in Brazil have some relationship with utility and telecommunications companies. Retailers, too, are points of frequent interaction with customers. Partnerships with both channels have enabled insurers to attract low-income customers who may otherwise be out of reach. In Brazil, such partners are not only employed as distribution points but also involved in other phases of the insurance life cycle.

In product development
- Complementary insurance based on the nature of the primary product offering of a utility or retailer
- Innovative use of client data to design appropriate products, making microinsurance more tangible
- Use of in-life benefits, such as a discount on pharmaceutical products or 24-hour locksmith’s or plumber’s assistance
- Combo insurance offering

In sales
- Multiple sales opportunities, including, for example, accompanying people who are selling their cars and then selling insurance to the new car owners
- Layered commission structures and the use of non-monetary incentives, like giving out movie tickets
- A structure of ongoing incentives with quality parameters – including incentives for the retailer as well as the client

In servicing and premium collection
- Use of electronic in-store help terminals
- Creating one-stop service desks
- Use of broker or third-party administrator
- Leveraging from existing bill-collection infrastructure
- Flexible premium collection

In claims handling
- Simplified claims process
- Outsourced claims adjusting
- In-store claims submission

What these innovations in Brazil, enhancing each phase of the product life cycle, boil down to is the main lesson for other markets: the importance of coordinating and integrating the approaches and objectives of the partners and insurance companies to create value for the consumer.

Figure 23
Utility, telecommunications and retailer distribution:
Representation of database (left) and retailer (right) sales channels

* The detailed role of the estipulante is defined in the Brazilian insurance regulations. The estipulante is a third-party entity that acts as the representative of the insured and can enter into group policies on behalf of the insured.

Source: Smit, Herman, Presentation “Golden bullets: Innovation lessons from Brazil”, 7th International Microinsurance Conference 2011
Plenary 3
Round table on microinsurance in Brazil

Insuring what people really need

Bradesco microinsurance

First Protection
Accidental death cover of US$ 11,000 for a premium of US$ 1.89 a month

Ticket
Lightning, fire, explosion and landslide cover of US$ 5,550 for a premium of US$ 5.50 a year

Bradesco Seguros, the largest insurance group in Brazil and Latin America and the first insurer to use mobile-phone points of sale on a large scale, paid special attention to the role of research (see Box 13) in developing new products for low-income populations and creating distribution channels. The insurer is a bank-owned subsidiary within the Bradesco Group, which has 66 million clients, specialised teams and the capacity to accommodate home banking. Its products are designed to suit customers’ specific needs, and the research undertaken has shaped its services.

Bradesco found that the main fears of low-income populations are not having enough money to pay the bills (52%) and being involved in violent situations (36%). These concerns were ranked above sickness (33%).

Many people in the shanty towns visited earn the equivalent of at least two minimum wages, are regular consumers of goods and have an eye for quality. The research confirmed that cheap products are not necessarily more desirable. Furthermore, the service given to the client has to be of similar quality, notwithstanding the price of the product.

Bradesco also found it necessary to differentiate between welfare and microinsurance, which should be a complement to the assistance provided by the government.

Strategic sales points, also used for financial education, are essential – such as banking correspondents, sales stands in communities, and even agencies set up on boats selling food on the Amazon River. Bradesco is recruiting new agents who have gained diplomas from SUSEP as part of the “Estou seguro” (I am safe) project, and plans to add fishermen, native Indians and farmers to its sales team. People in poor communities have a strong desire to climb up the living-standards ladder. In 2011, 13% of the homes in the slum community of Santa Marta had some type of insurance.

Microinsurance schemes should be seen as social inclusion programmes, with a broadly disseminated protection concept.

Box 13
Order of the most sought-after microinsurance products in Brazil

1. Accidental death
2. Funeral
3. Unemployment
4. Credit life
5. Life
6. Home
7. Dental
8. Car
9. Disability
10. Property and casualty
11. Rural
12. Health

Source: Velasques, Eugênio. Presentation “A case study in insurance for low-income people”. 7th International Microinsurance Conference 2011
Accessing the budget surplus in shanty towns

The round table also featured tips given by an anthropologist, based on his experience of living in shanty towns for up to six months in places as varied as the Philippines, India, Brazil, Bolivia and Peru. Focusing on his time at the Nilopolis shanty town in Rio de Janeiro, he said that household incomes there are up to 30% higher than people expect, and than that reported in official sources. Many people on low incomes do not have clear notion of their earnings because of inordinate amount of informal work they perform to potentially supplement the family budget. A secondary school student family member may also be working, and the extra income earned is not registered as household income.

Incomes also seem to be increasing. One encounters a high level of entrepreneurship in slums, as well as considerable economic dynamism. Similar phenomena can be observed in India and Bolivia.

With more insurance education and awareness there is ample room for growth and opportunities in the field of microinsurance. During the educational process, the focus should be on the head of household. People have a distinct logic and differentiate between cost and expense, the former offering a return, while the latter does not. The head of the household therefore needs to understand that the purchase of insurance is a cost and not an expense.

Equally important is the “microcentro comercial composto”, or micro compound commercial centre (MCC) – a network of capillaries and a system of “microcirculation” capable of penetrating the depths of informal urban spaces. They differ from ordinary centres, where relationships between people are cold and lacking in personal interaction. In an MCC, people are on first-name terms, and ask after each others’ family members. The higher the range of informality attained, the greater the level of access to the budget of low-income families.

There is also a new system for presenting insurance using little text and plenty of images. When insurance was presented in text form, people did not like it, but when it was presented with images to illustrate a number of concepts, people liked the idea of “protection”. These days, we should refer to “protection” rather than “insurance”. The household budget of low-income families can be accessed via an education programme that generates awareness and, therefore, lends tangibility to insurance products.

Lessons learnt

— Microinsurance legislation should be flexible in regulating activities within the scope of supervisory authorities, not creating any barriers or restrictions and open to a variety of distribution channels.

— Integrating the objectives of distribution partners and insurance companies is a key feature of a successful microinsurance scheme.

— Researching the low-income market is crucial for the development of new products and creation of new distribution channels. A first step should be to find out what risks poor families face and what they fear most.

— Microinsurance schemes should be seen as social inclusion programmes, having a broadly disseminated protection concept and complementing any government assistance programmes.

— The head of the household has to understand that purchasing insurance is a cost (which offers a return) and not an expense.

— Education is essential. Insurance should be presented in a manner and through channels informal enough for a low-income community to be comfortable with. When insurance is presented in text form, people do not like it, whereas when demonstrated using images in combination with various concepts, people like the idea of protection.

— The term “protection” should be used instead of insurance.
“The conference took place here at a very timely and important moment for insurers, insurance brokers and supervisors. It leaves a very important legacy and can change the history of the Brazilian insurance market.”

Eugênio Velasques, Executive Director and Head of Microinsurance, Bradesco Seguros, Brazil
## Agenda

### Day 3 afternoon sessions
10 November 2011

<table>
<thead>
<tr>
<th>Parallel session 13</th>
<th>Parallel session 14</th>
<th>Parallel session 15</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Developing microinsurance agents</strong></td>
<td><strong>Academic track: Demand</strong></td>
<td><strong>Case studies in pricing microinsurance products</strong></td>
</tr>
<tr>
<td>Serena Guarnaschelli</td>
<td>Sarah Janzen</td>
<td>Daniel Clarke</td>
</tr>
<tr>
<td>Partner, Dalberg Global Development Advisors, Switzerland</td>
<td>PhD student, University of California, Davis, USA</td>
<td>Researcher, University of Oxford, United Kingdom</td>
</tr>
<tr>
<td>Successes and challenges in microinsurance sales force development</td>
<td>Dynamic demand for index-based asset insurance in the presence of poverty traps</td>
<td>Pricing indexed agricultural insurance: Lessons from India</td>
</tr>
<tr>
<td>Ruth Aseron</td>
<td>Markus Olapade</td>
<td>Peter Wrede</td>
</tr>
<tr>
<td>Microinsurance Coordinator, USAID-supported RBAP-MABS programme</td>
<td>PhD student, University of Mannheim, Germany</td>
<td>Microinsurance Officer, ILO, Switzerland</td>
</tr>
<tr>
<td>Industry association of rural banks: Strategic partners for developing access to microinsurance</td>
<td>The impact of insurance literacy education on knowledge, attitude and behaviour – A randomised controlled trial</td>
<td>How to determine the premium of microinsurance in the absence of data</td>
</tr>
<tr>
<td>Pedro Bulcão</td>
<td>Berber Kramer</td>
<td>Kelly Rendek</td>
</tr>
<tr>
<td>CEO, SINAF, Brazil</td>
<td>PhD candidate, VU University Amsterdam, Netherlands</td>
<td>Consultant, Canada</td>
</tr>
<tr>
<td>Agent-based microinsurance – Experience from Brazil</td>
<td>Individual or group insurance? Microinsurance games with credit groups in Tanzania</td>
<td>Pricing of credit life</td>
</tr>
<tr>
<td>Facilitator</td>
<td>Facilitator</td>
<td>Facilitator</td>
</tr>
<tr>
<td>Craig Churchill</td>
<td>George Zanjani</td>
<td>Howard J. Bolnick</td>
</tr>
<tr>
<td>Chairman of the Microinsurance Network, ILO/Microinsurance Innovation Facility, Switzerland</td>
<td>AAMGA, Associate Professor, Department of Risk Management and Insurance, Georgia State University, USA</td>
<td>Chair, IAA Microinsurance Working Group, USA</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Parallel session 16</th>
<th>Flenary 4</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>National strategies – Regulatory approaches</strong></td>
<td><strong>Round table – Challenges for policy-makers and supervisors to ensure consumer value</strong></td>
<td></td>
</tr>
<tr>
<td>Martina Wiedmaier-Pfister</td>
<td>Sammy Makove</td>
<td>Closing of the conference</td>
</tr>
<tr>
<td>Consultant to GIZ, Germany</td>
<td>Insurance Supervisor, Kenya</td>
<td>Jorge Hilário Gouvêa Vieira</td>
</tr>
<tr>
<td>Introduction to the A2ii Toolkit 1 country diagnostic</td>
<td>Luciano Portal Santanna</td>
<td>President, CNseg, Brazil</td>
</tr>
<tr>
<td>Carla Chiappe</td>
<td>Superintendent, SUSEP, Brazil</td>
<td>Dirk Reinhard</td>
</tr>
<tr>
<td>SBS, Peru</td>
<td>Joseito Almaro</td>
<td>Vice-Chairman, Munich Re</td>
</tr>
<tr>
<td>Impact of microinsurance regulation</td>
<td>Director, National Credit Council, Philippines</td>
<td>Foundation, Germany</td>
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<tr>
<td>Facilitator</td>
<td>Facilitator</td>
<td>Chairman of the Conference Steering Committee and Member of the Executive Committee of the Microinsurance Network</td>
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<tr>
<td>Doubell Chamberlain</td>
<td>Michael McCord</td>
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<tr>
<td>Managing Director, Cenfri, South Africa</td>
<td>President, Microinsurance Centre, USA</td>
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Parallel session 13 Developing microinsurance agents

Selling microinsurance products on a voluntary basis has been one of the industry’s greatest challenges. The session looked at issues relating to sales force development – institutional as well as individual agents – from an array of perspectives: an overview based on the analysis of 13 case studies; a meso-level approach in the Philippines, integrating microinsurance in rural banks; a company in Brazil that has been selling microinsurance for 30 years.

A global perspective on sales force development

The study commissioned by the ILO Microinsurance Innovation Facility provides recommendations designed to improve sales force performance – from strategic insights into sales force development methods to practical tools. The 13 organisations analysed in the study represent a rich sample of insurers, intermediaries and NGOs, offering a variety of products, through different distribution channels, and across four continents. Microinsurers were classified into four models (see Table 11).

The study focused on four key areas: recruitment, training, incentives and monitoring. Common themes emerged across the different sales force models:

<table>
<thead>
<tr>
<th>Recruitment</th>
<th>Incentives</th>
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<tbody>
<tr>
<td>Low level of education a challenge</td>
<td>Quantity alone may encourage “bad sales”; include qualitative elements such as renewals and customer service</td>
</tr>
<tr>
<td>No one-size-fits-all approach</td>
<td>Combine financial with non-financial: professional development, prizes and promotion of top sellers</td>
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<tr>
<td>Influenced by regulatory environment</td>
<td>Intrinsic motivators give people recognition and purpose. People take pride in providing a service for their community</td>
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<tr>
<td>Training sessions: Recruit strongest performers</td>
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Training

- Sensitise staff
- Experiential more effective than classroom-based; games and testimonials
- Scripted or improvised role-playing, with instructor feedback
- Discounts so that the agents buy the product: “I bought it myself” is a powerful message
- Mentors accompany trainees during first sales and suggest improvements

Monitoring

- Continuous monitoring key to improving skills and training and ensuring quality sales
- Triangulate monitoring: Measure effects of individuals vs. channels
- Methodologies: Data review, including premium payments and renewals, spot checks, customer satisfaction interviews, hotline for questions and problems

The complete study, including more than 20 tools provided by participants, is available on the Microinsurance Innovation Facility website www.ilo.org/microinsurance

Table 11
Social performance indicators

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<th>Outsourced</th>
<th>In-house</th>
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<tbody>
<tr>
<td>Primary</td>
<td></td>
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<tr>
<td>Hollard Insurance (South Africa)</td>
<td>Alternative Insurance Company (Haiti)*</td>
</tr>
<tr>
<td>Liberty Seguros (Colombia)</td>
<td>ICICI Prudential Life Insurance (India)</td>
</tr>
<tr>
<td>MicroEnsure (Ghana)</td>
<td>Old Mutual (South Africa)</td>
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<tr>
<td>Auxiliary</td>
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<tr>
<td>Allianz Life (Indonesia)</td>
<td>CARE Foundation (India)</td>
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<tr>
<td>La Positiva Seguros y Reaseguros (Peru)</td>
<td>Groupe de Recherche et d’Echanges Technologiques (Cambodia)</td>
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<td>Confidential name (Latin America)</td>
<td>MicroEnsure (Tanzania)</td>
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<td></td>
<td>Palmyrah Workers’ Development Society (India)</td>
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* AIC recently adopted a dedicated agent strategy, and moved away from the original outsourced auxiliary model.

Source: Opdebeeck, Bert. Presentation “How to measure client value with social performance indicators”. 7th International Microinsurance Conference 2011
Facilitating licensing of rural banks as agents

Also funded by the ILO Microinsurance Innovation Facility, this project was initiated in the Philippines by Rural Bankers Research and Development Foundation Inc. (RBRDFI), the technical support and training arm of the Rural Bankers Association of the Philippines (RBAP). It is a network consisting of over 600 rural banks, 2,700 branches/offices, 800,000 micro-borrowers, and 5.3 million micro-depositors, representing 20 million low-income household members.

The objective was to facilitate processes and enhance the capacity of rural banks to comply with new banking and insurance regulations and offer microinsurance services.

A comprehensive approach was developed (see Figure 24) to help banks become licensed microinsurance agents:

- Work with insurance and bank regulators, using a turnkey approval process
- Select and monitor insurance partners
- Conduct nationwide training
- Facilitate market information for all stakeholders, with web-based applications and microinsurance portal
- Train front-line staff to become agents

The RBAP was granted authorisation by the Insurance Commission as the microinsurance training provider for the rural bank sector. Training of the sales force covers topics ranging from the principles of insurance to product features, claims settlement and regulations for microinsurance sales, marketing and servicing. The programme is designed to be highly participatory, and includes 40% lectures, 25% group discussions and 35% games and simulation exercises – in a risk-free setting, where trainees can test and hone their sales skills. Following training, banks are supplied with an Agent Licensing Kit, which contains a step-by-step guide and standard templates and forms to assist them throughout the process of licensing and accreditation by the regulators.

Figure 24
Rural bank microinsurance team

Licensing of a rural bank as a microinsurance agent entails integration of the insurance function at all levels of the bank.

Source: Aseron, Ruth. Presentation “Rural Bankers Association of the Philippines: Enhancing the capacity of rural banks as microinsurance agents”. 7th International Microinsurance Conference 2011
The transition took several years. One challenge was distributing life as well as funeral microinsurance using an in-house sales force. Success meant developing an efficient scalable methodology with SINAF’s own corporate culture and values (see Box 14). In sales-staff recruitment and selection, there is a preference for candidates with no prior sales experience. What is important is to ensure that clients and sales staff have a similar profile. Experience has shown that when and where the unemployment rate is lower, it is harder to recruit.

A defined sales methodology makes it easier for beginners – particularly in view of the tough field work involved, door to door taking 30 to 60 minutes per journey. Rules must be simple, clear and make sense! Sales leads are a priority, being good for the recruiting sales managers too.

Training is thorough. At the outset, 56 hours are devoted to insurance basics, maths and role-playing. After two months, there is a 16-hour review. At this stage, sales people are expected to be fully trained, professional and take pride in their work. There is also an annual training programme of 60 hours.

Performance measurement is critical. Daily checks and monthly evaluations gauge effort and effectiveness. Web-based information is monitored. Agents also evaluate their portfolio 24/7.

Box 14
Features of SINAF Seguro’s sales compensation programme

— Guaranteed salary for beginners – average individual monthly income of target market
— Average income in 12 months: 2x average individual monthly income
— Average income in 24 months: 2.5 to 3x average individual monthly income
— Some focus on the long term to balance short-term trends
— Reward recognition – Don’t skimp on the celebration
— A committed team: Herzberg’s two-factor theory

In line with Herzberg’s theory – that there are certain factors in the workplace that cause job satisfaction, while a separate set of factors cause dissatisfaction – managers pay attention to both sets of factors to build a committed team.

Source: Bulcao, Pedro. Presentation “Distributing life and funeral microinsurance using in-house sales force”. 7th International Microinsurance Conference 2011
A key challenge the company is addressing is retention – of customers as well as sales staff. For staff the levels are: 30–40% in the first six months; 23–28% within 12 months; and 20–25% within 18 months. Causes include field work, low unemployment, transferability of skills learned and adaptation to environment. Customer loss is high, standing at 40% within the first five months. The principal cause is clients’ inability to afford the monthly premiums.

Despite the challenges, SINAF’s methodology is producing results. Revenues increased from BRL 12m (US$ 6.7m) in 2005 to BRL 47m (US$ 26m) in 2011. Operating expenses, at 24%, are close to the life industry’s average of 23%. Return on equity increased from 5% in 2008 to 26% in 2011. SINAF Seguro is among Brazil’s ten most profitable life insurers.

Lessons learnt
— Quality starts at the top: there must be institutional buy-in and alignment of values and objectives among all stakeholders.
— Sale quality is as important as sale quantity. Quality is driven by the recruitment process, training, incentives and monitoring. Quantity alone may encourage “bad sales”.
— Best practices that ensure quality sales can vary along a continuum: from internal guidelines intended to build a sound, long-term business to guidelines determined by regulators. Ongoing monitoring helps ensure that best practices are followed.
— Keep Herzberg’s two-factor theory in mind: attend to both satisfaction and dissatisfaction sets of causes.
Field trip – SINAf Seguros

7 November 2011
SINAf Seguros, Rio de Janeiro

SINAf Seguros
Number of people insured: 500,000

Insured risks:
Life and funeral

The field trip took some 20 conference participants to Rio de Janeiro’s satellite city of Nilopolis (population 200,000) to learn more about SINAf Seguros, which has about 100,000 microinsurance policyholders among its 500,000 insureds in the area.

SINAf Seguros, a life insurance provider based in Rio, focuses on low-income market segments. Formerly a non-regulated funeral society, SINAf branched out into life insurance in 2002, and has since been a pioneer in the development of funeral and life insurance for low-income families in Brazil. The field trip was organised to offer conference participants an opportunity to meet some of SINAf’s customers and understand how the products bring value to them.

First, the visitors accompanied two SINAf salespersons making door-to-door calls on random prospective customers. These initial client contacts involved filling out questionnaires on insurance awareness, general consumption habits and, more specifically, family health and funeral insurance. At the outset, most prospects appeared to be somewhat reserved, but they soon delved into the insurance proposals and premium calculations. They seemed reasonably well informed about the products offered by SINAf, but unsure of the exact policy details, premium amounts, payment methods and potential payout amounts.

Participants then visited one of SINAf’s customers, Renata Maciel, at her house and talked to her about her views on insurance and experience with SINAf.

She had benefited from the life and funeral insurance cover purchased for her “remarkably in-shape husband” who, despite his appearance, had later passed away following a heart attack. Her testimonial recounted events following his death, the ease of the procedures which followed and the relative rapidity with which the claim amount was disbursed.

Following the door-to-door experience, the group went to one of SINAf’s sales offices in another satellite town of Rio de Janeiro, Nova Iguacu. There they met seven customers, chosen at random by the technique SINAf uses monthly in an effort to keep in direct contact with customers and understand their views, desires and complaints. The objective here is to provide a chance for direct conversation, where field trip participants are introduced to a good sampling of SINAf customers and hear their views on insurance. Some of these clients had been insured as members of an employee group, while others had purchased their policies on their own. None of the seven had a policy combined with microcredit, or any other insurance product, mainstream or microinsurance.

The main reason cited for the purchase of a SINAf policy was, without a doubt, the wish to avoid asking other family members, friends or neighbours to contribute to the death and funeral expenses (which are covered entirely by the insurance company). Customers also expressed the desire to reduce the burden placed upon family members in the event of a policyholder’s death.

For years the company’s brand has been highly recognised in and around Rio, with its black humour advertisements featuring slogans such as “How to plan the death of your mother-in-law”.

Lessons learnt
— Door-to-door calls on prospective customers in low-income communities can help build an understanding of the product and trust in the insurance provider.
— Regular, frequent, face-to-face meetings with a random group of customers involving a direct conversation yield valuable information to help microinsurers to continue to meet their changing needs.
— For effective word-of-mouth promotion, nothing beats testimonials given by claimants who have benefited from a good service.
— The prime reason why the poor may buy insurance is to cover death and funeral expenses.

69 — Participants at the conference field trip meet with clients and employees from SINAf.
70 — Agent from SINAf calls on a customer.
One of the main challenges for microinsurance is to improve take-up. This session covered three studies on demand for microinsurance: a theory on dynamic demand for asset insurance in a poverty-trap context; the effect of financial literacy training on knowledge of and attitudes to health insurance; how group insurance could offer a better match to clients’ existing risk-sharing networks.

How the poverty trap affects demand dynamics

One of the main risks for farmers in Northern Kenya is drought. Droughts threaten the survival of livestock, driving farmers into poverty. Index-based asset insurance could protect farmers from such poverty traps.

A theoretical analysis of insurance in such a context shows that households trying to stay outside the poverty trap no matter what will behave differently from those not facing a trap. The poor hold livestock yielding only low returns, whereas wealthier farmers have mainly high-return livestock. This means that the poor stay poor and the rich get richer, resulting in a poverty trap situation.

In the model, farmers choose how much to consume, how much to invest in livestock, and whether to take out insurance. The model first compares mandatory permanent insurance with the situation without insurance. Mandatory, actuarially fair insurance has three effects:

— Vulnerability effect: With insurance, fewer households fall into the poverty trap.
— Shifting equilibrium effect: When insurance is available, herd sizes are larger, and farmers seem to invest more in livestock.
— Smoothing equilibrium effect: When farmers insure their livestock, they have more stable herd sizes than in the absence of insurance.

The model then shows that, for the poorest farmers, in order to enhance welfare, subsidising a 20% mark-up on mandatory, actuarially fair insurance – e.g. the distribution and administration costs – is more effective than cash transfers.

The picture, however, changes when insurance is not mandatory but voluntary, and farmers decide annually whether to participate. Willingness to pay for such insurance is lowest among farmers just above the poverty trap. Buying insurance would mean they had only low-return livestock left, and this is why their willingness to pay is low.

Even for uninsured households, optimal investment behaviour changes. Because insurance is available, the benefits of investing are increased. They consume less than they did without access to insurance. As their herd is growing, such farmers are willing to pay more for insurance.

How insurance education impacts attitude

Client education is suggested as a way of raising demand for insurance, especially if it improves clients’ knowledge and attitudes to insurance. Does distributing information on insurance have this impact, and to what extent does the type of message matter?

A study randomly selected 35 control and 15 campaign villages. For a random sample of households in the campaign villages, it conducted a baseline survey and dropped brochures with different messages on insurance. These households were followed up later with an extensive interview. Another random sample of households without brochures was interviewed in the same village (control II). A number of households in the control villages were also interviewed (control II).
In terms of knowledge, the brochures had a negative spillover on people not targeted in the campaign villages. They were less likely to report having some idea about insurance. The same applies to a financial literacy index that was constructed from a number of statements on insurance.

In terms of attitude, respondents from campaign villages were positively affected, regardless of the negative knowledge effect on control I. This result calls for caution, since such campaigns are intended to improve decision-making capability and not just the perception of insurance.

The different brochure types affected attitudes in different ways. But the direction is not clear because of the different attitudes factored into one group.

**How offering microinsurance at group level solves a social dilemma**

An experiment in Tanzania is investigating a way to enhance participation in formal microinsurance, offering it at the level of the existing informal insurance networks such as credit groups. It compares microcredit clients’ demand for group insurance, in which either no group members or all group members enrol, with demand for insurance offered at individual level.

Because it involves group lending, microcredit clients contribute on behalf of defaulting group members in order to move to the next loan cycle. This creates an incentive on the part of the individual to forgo insurance and free-ride on the support of insured group members, even if they would all have been better off with full enrolment. Group-level insurance is one way out of this dilemma but may, at the same time, reduce demand if a few individuals are unwilling to join, thereby blocking willing group members from insurance.

The experiment involved 355 microcredit clients from the MFI Tujijenge in Dar es Salaam, Tanzania, participating in microinsurance games. These games mimicked the provision of health insurance to jointly liable microcredit groups, and varied regarding whether participants were offered insurance at the individual or group level.

Group insurance (GI) was associated with significantly higher enrolment rates than individual insurance (II) and the extent to which group members are barred from insurance by their peers diminishes over time (Figure 25).

These findings demonstrate that offering insurance at group level may well increase demand for voluntary microinsurance among credit groups, which could be generalised to apply to alternative risk-sharing groups such as the community, extended family or cooperatives.

**Lessons learnt**

- Insurance keeps households out of poverty traps.
- Financial literacy programmes do not necessarily improve clients’ knowledge and attitudes.
- Because of existing informal insurance networks, formal microinsurance offered at individual level is a social dilemma.
- Insurance offered at group level can solve this social dilemma.

**Figure 25**

**Group insurance (GI) versus individual insurance (II)**

The figure shows for every loan cycle (round) the proportion of enrolled participants and those barred from group insurance because at least one group member refused to enrol.

![Graph showing the proportion of enrolled and blocked participants for different rounds of microinsurance games](source:image-url)
Parallel session 15  
Case studies in pricing microinsurance products

Pricing is the oil in the microinsurance machine; it can keep the various components running, or cause them to stall. This session reviewed pricing elements in credit life, health microinsurance and indexed agricultural insurance.

Calculating the credit life premium

In simple terms, the premium required should equal the cost of claims, plus expenses, plus reinsurance costs, plus a margin to generate a surplus, minus investment income.

To obtain the cost of claims – in addition to the incidence rate per thousand and other actuarial calculations – the trend over time and multi-year periods is monitored and adjusted to take account of changes in the underlying demographics of the insured population. Expected claims should be validated by comparison with other programmes or published data.

To project the cost of administering and distributing the insurance plan, develop a budget in connection with the business plan. It is preferable to average the expenses over a five-year period (see Table 12).

The cost of reinsurance is usually specified as a percentage of gross or net premiums, and added in to the calculation.

For credit life pricing, there is no database of history. A typical response to such lack of data is to add a large margin for uncertainty. But such recourse is often not warranted for credit life. A risk margin for uncertainty of 15% of expected claims should be enough for credit life.

The amount of margin may be 1% to 10% of the premium. More stable plans may need a smaller margin, and start-up plans may require a higher margin.

Available returns on safe investments will determine the impact of investment earnings on the premium rate. For most credit life products, the expected investment income will have a very small impact on the premium; it figures more in a long-term policy.

Pricing without data: You call that pricing?

In the absence of data, what one may do to figure out premium rates will often differ from the pricing routine in conventional insurance – but there is a way to go about it. Two examples of health microinsurance product design and rate setting in Pakistan showed the way.

Both products covered hospitalisation. One was semi-mandatory for villagers in the country’s remote north. The other was mandatory for microfinance borrowers in a major urban centre.

<table>
<thead>
<tr>
<th>Table 12</th>
<th>Example: Expense assumptions for a start-up operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expense item</td>
<td>Yr 1</td>
</tr>
<tr>
<td>Staff</td>
<td>40,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>10,000</td>
</tr>
<tr>
<td>Other expenses</td>
<td>15,000</td>
</tr>
<tr>
<td>Distribution</td>
<td>5,000</td>
</tr>
<tr>
<td>Total expenses</td>
<td>70,000</td>
</tr>
<tr>
<td>No. of insured</td>
<td>500</td>
</tr>
<tr>
<td>Expenses per insured</td>
<td>140</td>
</tr>
</tbody>
</table>

Source: Rendek, Kelly. Presentation “Pricing of credit life”. 7th International Microinsurance Conference 2011
Health microinsurance is more difficult to price than life insurance – one needs more than a mortality table. Portfolios are smaller but claims more frequent. It is more difficult to include safety margins/risk loadings or to reprice, as the premium is considerably higher than for life insurance, making customers more price-sensitive.

With no statistical data, one can try a pilot. The closest study available, but not quite applicable, in the first rural case was on India’s rural population. The second case described used some experience from the first and experience from other urban pilots that had been launched before.

To start with, a number of factors should always be considered (see Box 15).

**Box 15**

**Ex-ante determinants of premium adequacy**

- What events/risks will be insured?
- What will the insurance provide if the insured event happens?
- Will there be modifying factors regarding the insurance payment, such as deductibles, co-payments, benefit limits?
- Will the insurance provide additional ancillary “value added” benefits?
- Will there be waiting periods?
- What exclusions are likely to impact the premium?
- Who or what will be insured?
- What are the eligibility criteria for being allowed to buy insurance?
- Will there be any individual selection of risk?
- What will be the duration of insurance cover?
- How will renewal be handled?
- What premium payment options will be offered?
- Will premium differentiate by risk factor?
- What regulatory requirements have to be observed?

Despite the caution and the precautions taken, both products produced underwriting losses for the first two years of operation. Actual claims experience had unfolded contrary to expectations because the processes had developed in unexpected ways. In the rural case, the incidence of hospitalisation far exceeded expectations and, over time, the average claims cost and claims size distribution were also all off the mark. It turned out that the outcomes at every step of the process – communication, marketing, enrolment, claims management behaviour of healthcare providers and the distribution channel – were different from those expected.

This experience with health microinsurance yielded an important realisation: the product became that which the process unfolded, rather than what it was designed to be. And that is what sets microinsurance apart: the product is the process, and this determines pricing adequacy more than initial statistical research. And, in microinsurance, everything in the process differs from conventional insurance.

The second case experienced a degree of borrower resentment to mandatory family health insurance. Based on statistically not significant early claims experience, the distributing microfinance institution imposed a premium reduction that very soon resulted in underwriting losses. But, even as evidence of underpricing became overwhelming, the distributor used its dominant control of the value chain to resist repricing.

Keeping these warning examples in mind, there are recommendations for pricing a microinsurance product with scant data.
A practitioner, at least in theory, can exercise some control over the process at the outset:

— Seek as much appropriate data as possible.
— Transfer data from similar environments and adjust.
— Be bold! Despite deficiencies, launch the product priced at the best guess (but limit exposure by limiting enrolment volumes and time).
— Be vigilant! Monitor and analyse claims experience thoroughly.
— Be quick! Take corrective action as soon as you see something is wrong.

In practice, however, as the Pakistan examples demonstrated, one may fail to diagnose the problem and implement the necessary corrective measures fast enough. The key to correct diagnosis is to have accurate data on enrolments, claims and environmental parameters (that may or may not be reflected in suitable key performance indicators). Quality and time can be issues in the case of remote areas with travel restrictions, especially if no reliable automated information system is in place. And if there is not a perfect alignment of understanding and interest with the local stakeholders.

**Pricing indexed agricultural insurance**

India’s National Agricultural Insurance Scheme (NAIS) is the world’s largest agricultural insurance programme. Insuring close to 25 million farmers annually, it is compulsory for farmers who borrow from financial institutions (and voluntary for others).

Farmers pay capped premiums to the public insurer AICI (Agricultural Insurance Corporation of India). But, in effect, NAIS is more a compensation than an insurance scheme. The insurer is not really taking the risk; the government is. There is ex-post financing for claims, with central and state governments allocating additional funds after each harvest to AICI to pay claims. Historically, claim payments have been three-and-a-half times premiums.

For pricing, NAIS has used an area-yield-based approach. Low-risk farmers pay the same premium as high-risk farmers, and the level of cover, based on three or five years of data, is excessively volatile. Inadequate pricing and ex-post claims financing present an open-ended fiscal exposure for the government.

The government is now piloting two potential successors to NAIS: a weather-based crop insurance scheme (WBCIS), and a modified National Agricultural Insurance Scheme (mNAIS).

For its rate-making methodology the mNAIS is using a new approach to designing and rating a portfolio of index insurance products. A framework for actuarial calculations now uses both temporal and spatial aspects of the data to increase the efficiency of statistical estimates. In addition to portfolio-based, rather than stand-alone, pricing it makes allowance for trends, which can make a big difference to rates. One such trend was the use of improved seeds, which dramatically increased average cotton yields across India. NAIS pricing made no allowance for this technological trend, and that led to high premium rates and low demand.

The mNAIS, with its actuarially sound pricing and up-front premium subsidies, is expected to increase farmer equity and enable private-sector competition among insurers and reinsurers.

**Lessons learnt**

— Claims payment, demonstrating how the lives of poor people are affected, is the litmus test of microinsurance.
— Underwriting-related investigation should be done when insurance is applied for, not when a loss occurs.
— Cashless hospitalisation in micro health insurance can work if it has strong controls and competent field staff.
— Technology can integrate the three Ps of the medical system – patients, providers and payers – and facilitate relationships among them.
— By aggregating data and coding diseases, IT systems can help deliver efficient claims service – but they may be too costly for microinsurance if the programme lacks scale.
— A smart card with direct connectivity can gain acceptance in a broadly based healthcare programme where members lack financial literacy.
— Microinsurance clients do not understand legalise and exclusions; products should be structured in such a way that the cover itself permits early claim payment and minimises rejections.
Parallel session 16
National strategies – Regulatory approaches

This session addressed the various questions surrounding regulatory approaches in the microinsurance sector: the fine line between a regulatory vacuum and too much regulation, which may in the end stifle sector growth; the (possible) policy necessity of defining microinsurance within the regulatory framework; whether it is really necessary to insert microinsurance into regulatory frameworks; whether microinsurance should receive special treatment compared with the mainstream insurance sector (considering the fact that the client base is different and its hypothetical profitability).

To help regulators deal with such questions, a country diagnostic toolkit was developed by the Access to Insurance Initiative (A2ii), a global partnership of the International Association of Insurance Supervisors (IAIS) and a number of development agencies. A presentation reviewed the toolkit’s methodology for conducting a diagnostic study, whose objectives are to

— create an understanding of the broader economic and financial sector context within which the insurance sector will develop;
— facilitate the domestic stakeholder dialogue and provide an understanding of the role of various stakeholders in the market.

The toolkit’s approach begins with a review of the concepts of microinsurance and financial inclusion. It goes over the insurance value chain (intermediation and product landscape and its interaction with regulation). It then examines formalisation and the impact it has on market development, followed by consideration of the regulatory framework and objectives of financial policy.

The diagnostic study also analyses the demand for and supply of microinsurance products within a country and the impact that policy, regulation and supervision have on such demand and supply. It builds an understanding of the underlying driving forces of the market, stemming from the regulatory framework, the structure of the insurance market, the broader financial sector and the macroeconomic and socio-economic contexts.

The diagnostic study identifies the barriers to and opportunities for the microinsurance market’s future development, formulating recommendations for all stakeholders.

The diagnostic study is meant to be comprehensive enough to deliver recommendations for a national microinsurance development strategy, including appropriate policy and regulatory changes (see Figure 26).

In the past, 11 countries had implemented a country diagnostic. Peru is among the countries that implemented an A2ii diagnostic in 2012. Peru’s insurance supervisor, SBS, issued its first microinsurance regulation in 2007.

The regulation’s goal was to promote major sector development within a specific consumer protection legal framework. It defined microinsurance as “a massive, cheap and low coverage insurance”, setting limits of US$ 3,300 coverage and US$ 3 monthly premium. It also specified microinsurance policy requirements – such as no deductibles or coinsurance, and simplified documents – and allowed use of new distribution channels.

76 — Left to right: Martina Wiedmaier-Pfister, GIZ, Germany; Carla Chiappe, SBS, Peru.
77 — Doubell Chamberlain, Cenfri, South Africa.
Peru’s regulatory experience since the 2007 regulation has yielded a number of lessons:

— Consumer protection and transparency requirements are important for developing trust in microinsurance.

— Regulatory frameworks need to be flexible and adjust easily to the changing conditions of insurance markets.

— Regulatory limits on prices and benefits can be obstacles for developing innovative products.

— The microinsurance product design process is important to determine the success of the product.

— Insurance companies must identify the insurable group, be familiarised with their needs and find the appropriate distribution channel.

In 2009, a new microinsurance regulation was adopted and it includes a new definition of the product, avoiding monetary limits – though it does discourage any exclusions. Insurers must register any microinsurance policy with the supervisor and submit mandatory quarterly reports “on policyholders, premiums and losses”.

Peru’s microinsurance market now comprises ten insurers with 37 products registered and 430,000 new clients. The entire client base includes 1.3 million members of MFIs, and 244,000 poor farmers.

**Lessons learnt**

— A comprehensive assessment by an A2ii country diagnostic provides a sound basis for sector development.

— Stakeholder dialogue fosters joint action and sector learning.

— Focus on a clear policy before “rushing to regulate”.

— Financial education and consumer protection tailor-made for the low-income segment should be on the supervising agenda.

— Market analyses, indicators and benchmarks are needed to assess whether strategies to promote sector development provide true consumer value.

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*Figure 26*

**Policy and regulatory reform process**

1. Set policy and strategy
2. Understand the market
3. Implement regulatory change and provide market support
4. Evaluate impact and adjust

This discussion focused on two key questions underpinning efforts to ensure consumer value: How is consumer protection – a main remit of the policy-making and supervision levels – different from consumer value? Who protects consumer value?

Protection and value for the consumer are two sides of the same coin and go hand in hand. For both there are generally accepted standards. Solvency requirements and technical rules set by the supervisor, together with government guidelines on transparency, are meant to protect the consumer – but they also help deliver value to the consumer. The regulator can set additional performance standards for value, and develop redress mechanisms for protection.

In the relatively new and emerging field of microinsurance, more and more regulators are defining, setting and adjusting its characteristics to suit their own markets and jurisdictions, as well as approving each microinsurance policy developed for sale. Their major concerns are the quality and variety of the products offered to consumers, and the clarity of the information on them. Consumer education is, therefore, a top priority.

In Brazil a new microinsurance regulation is to be introduced by the end of November 2011. Among its provisions is a new category of specialised microinsurance brokers that speak the same language as the low-income target market – although existing brokers will also be able to serve the sector. Understanding the market is a key to ensuring consumer value. And there has to be full disclosure when a microinsurance contract is sold. Clients have to know what their privileges are. Credibility and reliability are crucial in the microinsurance market.

Both the state and the supervisory authority have a role in sustaining the trust of consumers. Nowhere does trust play a more important role than in distribution, which is one of the most significant elements of microinsurance. Distribution channels must be trusted channels. Policy-makers and regulators who oversee and guide the market players and providers who underwrite covers need to augment trust in the distributors by responding to their changing needs and those of the consumers.

Box 16 Impact of microinsurance regulation

— Need to review massive products registered before specific regulation.
— Most successful products have been developed in partnership with non-governmental women’s organisations, MFIs and banks.
— Insurance companies have developed specialised microinsurance departments.
— Interest on the part of sector-based policy-makers in microinsurance for poor farmers.

Source: Chiappe, Carla. Presentation “Impact of microinsurance regulation in Peru”. 7th International Microinsurance Conference 2011
The cases of Peru (see Box 16) and Chile are among those that show the need to monitor and review guidelines as microinsurance takes hold. It helps ensure both consumer value and protection. In 2007, the regulator in Peru set a limit for microinsurance coverage. In 2009, the legislation was changed to introduce limits that would allow insurers to offer a greater variety of microinsurance products. In Chile, the 2010 earthquake prompted a review to see if earthquake coverage could be included in policies for low-income people.

Policy-making and regulation priorities in Kenya demonstrate the importance of access and the cost-benefit balance to ensure consumer value. About a dozen microinsurance products are sold by insurers there. But some microinsurance products are running loss ratios of 100% or more, which are supported by various donor funds. The regulator is encouraging insurers to focus on the programme’s sustainability, built on a clear-cut business case.

The stability of the insurance sector is the key to enabling insurers to pursue and maintain consumer protection and value standards. When microinsurance evolves into a going concern after graduating from the formative stage, the level of profitability becomes an issue. Low-income people have little understanding of insurance, let alone of the insurers’ cyclical operating results, where lean years need to be offset by what may readily be perceived as excess profits at the expense of policyholders. In the case of index-based products, the basis risk itself is a client-value issue. In one pilot project, where 20 farmers were sold index insurance but not informed of how it might unfold, the “chickens came home to roost” when the customary rainy season failed to deliver any rain. It took just one farmer to stand up at the meeting and say that insurance companies were thieves.

That the insurance industry, like others, is there to provide and add value but has to make money to be able to do so needs to be a part of the consumer education equation. Cost and price levels are regulated, but not fixed, by the supervisory authority. The free-market demand-and-supply chain ensures consumer value. And there can be self-regulation among insurers in respect of good business practices and ethical standards. As for excess profits, it should be the market, and not the state, which sets profit levels. Making profit levels a central concern for the state would be a bad thing for consumers. However, the supervisory authority would do well to consider for how long excess profit-making should be tolerated in a low-income market before more competitors come in and help redress the balance.

Everyone has responsibilities throughout the microinsurance value chain: state, regulator, provider, distributor and even consumer. Claims ratios related to fraud are a growing concern for supervisors in most jurisdictions. Everyone ends up paying for fraud. And this point needs to be brought home in each consumer awareness programme.

Financial literacy and training should involve not only consumers but also the media and any consumer rights groups, which often play a role in getting the message across and assisting with disclosure. Education aimed at key players in a community helps consumers protect themselves and ensure value. It should be a focus of social and financial inclusion – the most important path in a long-term policy.

Lessons learnt

— Protection and value for the consumer go hand in hand and are governed by a number of generally accepted standards.

— Policy-makers and regulators have supplementary oversight roles in ensuring consumer value, and need to monitor changing needs in the low-income market.

— Grievance-redressing mechanisms, like an ombudsman, help maintain consumer trust in both value and protection.

— Credibility and reliability of distribution channels are particularly important.

— Cost and price may be regulated but must not be fixed by the state or supervisory authority. They need to be determined by market forces.

— There must be value addition in the microinsurance chain at all levels. In particular, providers should strive to give extra benefits but in a sustainable manner, with the regulator ensuring adherence to the business case.

— Fraud in claims is a growing problem requiring regulators’ attention. Consumers need to be made aware of how it affects value collectively.

— Education and literacy should be the centrepiece of social and financial inclusion programmes, and a critical path in long-term policy.
Countries represented
Participating organisations

Argentina
FONCAP 
Provincia Seguros 
Provincia Art S.A. 
Río Uruguay Seguros

Australia
Asian Development Bank 
ILO

Azerbaijan
Ministry of Finance

Bangladesh
SAJIDA Foundation

Belgium
BRSA – Belgian Raiffeisen Foundation

Belize
Insurance Corporation of Belize Ltd.

Bolivia
Alianza Compañía de Seguros y Reaseguros S.A. 
Aon Bolivia S.A. 
Consejeros y Corredores de Seguros Bolivia SRL 
Cooperación Suiza 
Fundación PROFIN 
Institute of International Education 
La Boliviana Cisca 
Regal de Seguros y Reaseguros S.A. 
Latina Seguros 
Nacional Vida

Bosnia and Herzegovina
Partner Microcredit Foundation

Brazil
American Life Cia de Seguros 
ANS – Agência Nacional de Saúde Suplementar 
Aon Affinity Latin America 
Assurant Solutions 
Assuré Administración e Corretora de Seguros 
Banco do Brasil S.A. 
Banco do Nordeste do Brasil S.A. 
Blog Sonho Seguro 
Bradesco Seguros 
Brasil Econômico 
Brazilian School of Insurance 
BSP Afinity 
CAPEMISA 
Central Unica das Favelas/RS 
Chubb do Brasil Cia de Seguros CNseg 
Cooperativa Central de Crédito da Agricultura 
Familiar e Economia Solidária da Bahia COCS 
CSP-MG 
DGRV 
FenaCap 
Futura Previdência 
Privada 
Grupo Informe 
Grupo Segurador Banco do Brasil e Mapfre 
Guy Carpenter 
Idealizar & Comunicación 
Instituto Palmas de Desenvolvimento e Socioeconomia 
Solidária 
Itau Unibanco Seguros 
Jornal Brasil Econômico 
Jornal Estado de Minas 
Liberty Seguros 
Lugaro Corretora de Seguros 
Mapfre Vera Cruz 
Seguradoras 
Mena Photography 
Metropolitan Life 
Seguros e Previdência 
Privada 
Ministerio del Desenvolvimento Social 
Munich Re 
National School of Insurance 
Porto Seguro Cia de Seguros Gerais S.A. 
Prudential do Brasil 
QBE Brasil Seguros S.A. 
Revista Apólice 
Revista de Seguros (CNseg)

Seguradora Lider – 
DPVAT 
ShoreBank International 
SINAF Seguros 
Suma Economica 
STIEP 
Valor Económico 
Vayon Insurance Solutions 
XG Group PLC 
Zurich Seguros

Canada
ID&C's 
Insurance 
Centre, LLC

Chile
BancoEstado 
Microempresas 
Liberty Seguros 
LIMPRA 
SVS

Colombia
Bancamia – Microfinance 
Bank 
BlueOrchard 
Investments 
FASECOLDA 
Fundación Centro Acción 
Microinpresarial 
Liberty Seguros 
Mapfre Colombia Vida 
Seguros S.A. 
Mapfre Seguros Generales 
Ministry of Finance 
Seguros de Vida Colpatria 
Superintendencia 
Financiera 
East Timor 
National Insurance 
Timor Leste

Ecuador
Imedical 
Seguros Oriente S.A. 
El Salvador 
FEDECREDITO 
Ethiopia 
ILO Regional Office for Africa

Fiji
Milinui Insurance 
Corporation of India

France
Grameen Credit 
Agricole Microfinance 
Foundation 
Hanover Life Re 
MACIF 
PlaNet Finance 
Gabon 
CIMA

Germany
Access to Insurance 
Initiative 
DEG/KfW 
ERGO International 
German Insurance 
Assocation GDV 
GIZ/BMZ 
Hannover Re 
KfW Development Bank 
Making Finance Work 
for Africa 
Munich Re 
Munich Re Foundation 
University of Frankfurt 
University of Mannheim

Ghana
Donewell Life 
Ghana Insurance College 
Ghana Life Insurance Company 
GIZ 
MicroEnsure LLC 
National Insurance 
Commission 
SIC Life Company 
Star Microinsurance 
Services 
Vanguard Life Assurance 
Co. Ltd.

Guatemala
IIE 
India 
CARE Foundation 
CIRM 
HDFC ERGO General 
Insurance Company 
ICICI Prudential Life 
Insurance Company 
IFFCO TOKIO General 
Insurance 
IndiaFirst Life Insurance 
Insurance regulatory and development authority 
Marsh India Insurance 
Brokers Private 
Limited 
Tata AIG General 
Insurance Company Ltd

Indonesia
Central Bank of Indonesia 
Jiwarastra Life Insurance 
Nusantara Cooperative 
Jordan 
Microfund for Women 
Kenya 
CIC Insurance Group 
Insurance Regulatory 
Authority 
International Livestock 
Research Institute 
NHIF 
Lebanon 
Commercial Insurance Co. 
Luxembourg 
ADA 
Microinsurance Network

Mexico
AMUCESS-RED SOL 
Compartamos Banco 
Don Juan Microseguros 
FIDES 
Financiera Independencia 
FOMIN 
General Reinsurance 
Mapfre Mexico 
Ministry of Finance 
and Public Credit 
PRONAFIM 
Red Solidaria de 
Microseguros Rurales

Mongolia 
Financial Regulatory 
Commission 
Ministry of Finance 
and Reinsurance 
Morocco 
Department of Insurance 
and Social Welfare 
Mozambique 
Gapi

Netherlands
GUYDÓN INCLUSIVE 
FINANCE 
PharmAccess 
Foundation 
TRIO Behriester 
University of Twente 
VU University 
Amsterdam

Nicaragua
INISER

Nigeria
Hygiene Community 
Health Plan 
National Insurance 
Commission

Pakistan
Naya Jeevan 
Panama 
Axiis Systems 
QBE Del Isto 
Reinsurance Company 
Superintendence 
of Insurance and 
Reinsurance 
Papua New Guinea 
ILO 
Office of Insurance 
Commissioner 
Pacific MMS Insurance 
Limited

Paraguay 
Cooperativa de 
Seguros Taja 

Peru
APESEG 
Cajamar Municipal 
de Cusco 
Centro Nacional de 
Estimación, Prevención y 
Reducción del Riesgo 
de Desastres 
Consejeros y Corredores 
de Seguros S.A. 
GIZ 
Invita Seguros de Vida 
La Positiva Seguros 
La Protecra Corredores 
de Seguros 
Mapfre Perú Compania 
de Seguros y Reaseguros 
Prisma 
Protecta S. A. Cia. 
de Seguros 
QBE del Isto 
Rimac Internacional 
Compania de Seguros 
y Reaseguros 
Superintendencia de Banca, Seguros y AFP
**Figure 27**
Number of participants by continent

- Central and South America 51%
- Europe 16%
- Africa 15%
- Asia 9%
- North America 8%
- Oceania 1%

**Figure 28**
Type of representatives

- Insurance and finance industry 47%
- Donor agencies, development and international organisations 16%
- Government and regulatory bodies 11%
- Microfinance and microinsurance providers 8%
- Academics 7%
- Media 4%
- Others 4%
- Consultants 3%
**Acronyms**

**ADB**  
Asian Development Bank

**AKI**  
Association of Kenyan Insurers

**AICI**  
Agricultural Insurance Corporation of India

**AMUCSS**  
La Asociación Mexicana de Uniones de Crédito del Sector Social

**a2ii**  
Access to Insurance Initiative

**BDM**  
Becker-Degroot-Marshak (scratch cards)

**BMZ**  
Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (Federal Ministry for Economic Cooperation and Development)

**BRL**  
Brazilian real

**CEAR**  
The Center for the Economic Analysis of Risk at Georgia State University, USA

**CHF**  
Community health fund

**CIDR**  
Centre of Integrated Development and Research

**CIRC**  
China Insurance Regulatory Commission

**CIBM**  
The Centre for Insurance and Risk Management

**CLIMBS**  
Co-op Life Insurance and Mutual Benefit Services

**CMA**  
China Meteorological Administration

**CNSeg**  
Confederação Nacional das Empresas de Seguros (Brazilian Insurance Federation)

**DNA**  
Deoxyribonucleic acid, the hereditary essence of organisms

**ENEF**  
The National Strategy for Financial Education, Brazil

**Fasecolda**  
La Federación de Aseguradores Colombianos (Colombian Insurance Federation)

**FIDES**  
La Federación Interamericana de Empresas de Seguros (Inter-American Federation of Insurance Companies)

**FAO**  
Food and Agriculture Organisation

**GDP**  
Gross domestic product

**GIZ**  
Deutsche Gesellschaft für Internationale Zusammenarbeit

**GPS**  
Global Positioning System

**HMF**  
Health mutual fund

**HDFC**  
Housing Development Finance Corporation

**HSNP**  
Hunger Safety Net Programme

**IADB, IDB**  
Inter-American Development Bank

**IAS**  
International Association of Insurance Supervisors

**IBLI**  
Index-Based Livestock Insurance

**ICICI**  
Industrial Credit and Investment Corporation of India

**IFAD**  
International Fund for Agricultural Development

**ILO**  
International Labour Organization

**ILRI**  
The International Livestock Research Institute

**IMF**  
International Monetary Fund

**IRDA**  
Insurance Regulatory and Development Authority

**IT**  
Information technology

**ITT**  
Intention to treat

**JFPR**  
Japanese Fund for Poverty Reduction

**KES**  
Kenyan shilling

**KNCU**  
The Kilimanjaro Native Cooperative Union

**LLC**  
Limited liability company

**MCC**  
Microcentro Commercial Composto

**MFI**  
Microfinance institution

**MILK**  
Microinsurance Learning and Knowledge

**Mín**  
Microinsurance Network

**MIPSS**  
Microinsurance Innovations Program for Social Security

**mNAIS**  
modified National Agricultural Insurance Scheme

**MTN**  
Metropolitan Telecommunications Network

**NAIS**  
National Agricultural Insurance Scheme

**NGO**  
Non-governmental organisation

**PIB**  
Producto interno bruto or gross domestic product

**POS**  
Point of sale

**PPP**  
Public-private partnership

**PRONAFIM**  
El Programa Nacional de Financiamiento al Microempresario

**PTTS**  
Programa Troca-Troca de Sementes

**RBA**  
Rural Bankers Association of the Philippines

**RBRDFI**  
Rural Bankers Research and Development Foundation

**RCT**  
Randomised controlled trial

**RedSol**  
La Red Solidaria de Microseguros Rurales

**RFID**  
Radio frequency identification

**RSBY**  
Rashtriya Swasthya Bima Yojana

**SACCO**  
Savings and credit cooperative

**SBS**  
La Superintendencia de Banca, Seguros y AFP

**SINAF**  
Sistema Nacional de Asistencia a Familia, or National System for Family Assistance

**SMS**  
Short message service, on a text-enabled wireless device

**SUSEP**  
Superintendência de Seguros Privados

**TPA**  
Third-party administrator

**US$**  
United States dollar

**WASP**  
Wireless access service provider

**WBCL**  
Weather-Based Crop Insurance Scheme

**ZAR**  
South African rand
I think that, in ten years’ time, microinsurance will be successful if it has been able to build insurance into social protection. Insurance for the poor has a huge future. We need to identify its niche and complementarity in development.

Stefan Dercon  
Professor of Development Economics,  
University of Oxford  
Chief Economist, Department for International Development (DFID), UK