Report
Microinsurance Learning Sessions:
Latin America and the Caribbean 2013
Forito of the XIII Inter-American Forum on Microenterprise - Foromic

29 September 2013
Guadalajara, Mexico
The content of this publication was generated from the Microinsurance Learning Sessions: Latin America and the Caribbean 2013, held September 29, 2013 in Guadalajara, Mexico as part of the XIII Inter-American Forum on Microenterprise - Foromic. This publication was prepared by the Microinsurance Agenda of the Multilateral Investment Fund, member of the Inter-American Development Bank Group.

The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of the Inter-American Development Bank, its Board of Directors, or the countries they represent.

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Inter-American Federation of Insurance Companies
- www.fideseguros.com
Microinsurance Network
- www.microinsurancenetwork.org
Acknowledgements

This report is the summary of the Microinsurance Learning Sessions: Latin America and the Caribbean 2013 that took place in Guadalajara, Mexico, on 29 September 2013 as part of the XIII Inter-American Forum on Microenterprise – Foromic. The Microinsurance Learning Sessions were hosted by the Multilateral Investment Fund and the Munich Re Foundation, with the support of the Microinsurance Innovation Facility of the International Labour Organization, the Inter-American Federation of Insurance Companies (FIDES) and the Microinsurance Network.

We would like to thank all of the co-sponsors for their outstanding support to make this event a true success. A specific thank you to the Microinsurance Innovation Facility for their support in developing the panel topics, FIDES for the participation of its projects across the panels, and the Microinsurance Network for serving as moderator. This event would not have been possible without their support.

Over the course of the day, 21 speakers and facilitators discussed innovative microinsurance programs and candidly shared the challenges they have faced in the process of developing these programs and making them sustainable. We would like to thank all the presenters for dedicating their time and resources to share their knowledge and experiences with the goal of making microinsurance a true risk management tool for the region’s vulnerable population.

Our appreciation also goes to the over 100 in-person and 200 virtual participants from across the region and the world for contributing their comments and questions and making the discussions lively and thought-provoking.

A special thank you also goes to the team of rapporteurs—Josh Ling, Pablo Ruiz and Shoshana Grossman-Crist— for helping us document the key messages and lessons from the various sessions.

We eagerly await seeing the fruits of the conversations, learnings and collaboration that occurred over the course of this day. We also look forward to seeing the future learnings that will in turn result from putting these into practice.

María Victoria Sáenz  
Multilateral Investment Fund

Dirk Reinhard  
Munich Re Foundation

April 2014
## Agenda

**Opening Remarks**
Maria Victoria Sáenz  
Multilateral Investment Fund, USA

**Welcome addresses**
Dirk Reinhard  
Munich Re Foundation, Germany  
Recaredo Arias  
FIDES, Mexico

**The landscape of microinsurance in Latin America and the Caribbean**
Michael McCord  
MicroInsurance Centre, USA

**Use of technology to strengthen distribution channels and increase outreach of microinsurance**
Miguel Barcia  
Seguros MAPFRE, Mexico  
Rodolfo Ern  
Bradesco Seguros, Brazil

**Moderator**
Miguel Solana  
ILO – Microinsurance Innovation Facility, Switzerland

**The role of insurance associations: Market information and financial education**
Raúl de Andrea  
APESEG, Peru  
Recaredo Arias  
AMIS, Mexico  
Carlos Varela  
FASECOLDA, Colombia  
RICardo Tavares  
CNseg, Brazil

**Moderator**
Maria Victoria Sáenz  
Multilateral Investment Fund, USA

**Client value: Cases from the Microinsurance Learning and Knowledge Project’s Client Math and from the ILO’s client value assessment tool PACE**
Barbara Magnoni  
EA Consultants, USA  
Derek Poulton  
EA Consultants, USA

**Moderator**
Miguel Solana  
ILO – Microinsurance Innovation Facility, Switzerland

**How to provide microinsurance to those who are truly poor**
Lorena Pedraza  
Zurich Seguros, Mexico  
Isabel Cruz Hernández  
AMUCSS, Mexico  
Rennata González  
Compartamos Banco, Mexico

**Moderator**
Véronique Faber  
Microinsurance Network, Luxembourg

**Agricultural and catastrophe microinsurance**
Lourdes Del Carpio Gómez de la Torre  
La Positiva, Peru  
Walter Reátegui  
Agrobanco, Peru  
Sobiah Becker  
Munich Climate Insurance Initiative, Germany  
Cecilia Tondelli  
Fundación PROFIN, Bolivia

**Moderator**
Dirk Reinhard  
Munich Re Foundation, Germany
“The industry is ready to support market development.”

Recaredo Arias  
President of the Mexican Association of Insurance Institutions and former Secretary General of the Inter-American Federation of Insurance Companies

“I strongly believe that we need all stakeholders on board. We need the microfinance industry, that has good contacts to the local clients, knowledge of what they need, knowledge of what is going on. We need regulators to provide the right regulatory framework. We need the insurance industry to reach out to the low-income market. We need donors to overcome some challenges in developing products, data, education and so on. We need the academics that tell us what works, what does not work and what we need to do about it. So basically, we need everyone on board, and I strongly believe that if any one of these groups is missing, we will not reach out to this market as we need to do.”

Dirk Reinhard  
Vice Chairman, Munich Re Foundation

“We need to think about how to build up the numbers of people covered in such a way that offers quality and variety.”

Michael McCord  
President, MicroInsurance Centre

“We need to push the frontier of microinsurance; we need to leverage the knowledge and development present in Latin America to offer the world new models in such innovative areas as agricultural insurance and health products that complement national health systems.”

María Victoria Sáenz  
Lead Microinsurance Specialist, Multilateral Investment Fund
Welcome

The Microinsurance Learning Sessions: Latin America and the Caribbean took place in the Mexican city of Guadalajara. Meaning “valley of stones” in Andalusian Arabic, Guadalajara was founded in 1537 and today is the second most important city in Mexico.

Attendees were welcomed and the stage set for the day’s topics by representatives of three of the MIF’s close partners: the Mexican Association of Insurance Institutions (AMIS), the Inter-American Federation of Insurance Companies (FIDES) and the Munich Re Foundation.

Recaredo Arias, General Director of AMIS and Vice President of the Global Federation of Insurance Associations, spoke about the importance of “everyone learning from everyone.” In particular, he stressed the value of sharing experiences on microinsurance regulation, different funding mechanisms, the development of products that meet real consumer needs and development of distribution channels and information technology.

Financial education, Mr. Arias said, is another very important issue. He provided the example of AMIS’s participation in the Financial Education Week held for the seventh time in Mexico in September 2013. This event, organized by the Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros (National Commission for the Protection and Defense of Users of Financial Services), includes competitions and different incentives for financial institutions and current and potential customers to become more knowledgeable about the different financial products. In this context, 40 teams of high school students participated, winning prizes by answering questions about financial education and insurance in particular.

During this warm-up session, Mr. Arias also presented some of the results of a project implemented by FIDES with the support of the MIF, MAPFRE Foundation and the local insurers themselves. The ‘Development of the Private Microinsurance Sector in Latin America and the Caribbean’ project runs in six countries through their respective insurance associations and eight insurance companies. The project includes financial education through the associations, as well as the detection of market needs and development of innovative products that “meet hitherto unmet needs” of the poor and low-income.

Dirk Reinhard, Vice Chairman of the Munich Re Foundation, focused on two issues that are becoming increasingly important: on the one hand, preventing and adapting to natural disasters that arise as a result of climate change and on the other hand, in terms very similar to those of Mr. Arias, the enormous importance of...
issues related to education and development of a risk prevention and risk management culture, particularly among the low-income population. Indeed, “without fighting poverty, we cannot fight climate change.” The legacy of the founders of the Munich Re Foundation has been instrumental in supporting the development of tools to prevent people from falling back into poverty because of disasters.

For the Munich Re Foundation, the impact of natural disasters on the poor is of particular concern, such as has been seen in the wake of hurricanes Ingrid and Manuel in Mexico. It is because of the heightened impact of these occurrences on the poor that the foundation is looking for better solutions for their protection.

The learning sessions then have emerged from “the need for small events where we discuss more regional aspects and reach out to local experts” beyond larger events such as the International Microinsurance Conference.

In Latin America, where are we? “It is among the most interesting regions when it comes to microinsurance for many reasons, such as economic growth, but also when it comes to microfinance development and the well-developed insurance industry that we have,” said Mr. Reinhard. “However, that insurance industry is not reaching out to the low-income market adequately right now.”

Microinsurance grew 125% in Latin America between 2005 and 2011, almost 90% of this being due to growth in Colombia, Peru and Ecuador. It is noteworthy that Mexico is not on that list despite the size of the country and its economy, so there is a need to support the growth of this industry there.

The microinsurance market is a promising but challenging market, he added. One of the main challenges is educating market players and it is hoped that the Microinsurance Compendium Volumes I and II, in both English and Spanish and soon in Portuguese, will contribute to overcoming this gap in education.

Mr. Reinhard concluded by stressing the importance of having all stakeholders on board— from microfinance institutions and regulatory agencies to the insurers, donors and academics— so that we reach the poor and low-income market, as must be done.

Dirk Reinhard
Munich Re Foundation, Germany
Plenary
THE LANDSCAPE OF MICROINSURANCE IN LATIN AMERICA AND THE CARIBBEAN

This session explored expanding microinsurance beyond the 45 million people and properties currently covered by microinsurance in Latin America and the Caribbean so that more low-income persons are able to deal with the risks they face.

Discussion centered around the results of the study “The Landscape of Microinsurance in Latin America and the Caribbean”, conducted by the Microinsurance Centre.

The study identified that 7.6% of the region’s population is covered by microinsurance; however, this number drops to 2.6% when the five countries with the highest coverage ratio (Jamaica, Peru, Ecuador, Colombia and Mexico) are taken out.

The study identified the need to expand beyond basic products and increase volume of people covered in such a way that offers quality and variety. The market has the potential to cover over 300 million people and properties with premiums of over US$ 6 billion.

To identify gaps in microinsurance development and opportunities for addressing them, it is important to look at the various market types.

Because of macroeconomic, commercial, and market issues, four general categories of models were identified in the region:

- **Frontier Markets** are those where microinsurance is just starting or is about to start;
- **Credit Market-led models** are those in which microinsurance is driven by microfinance institutions offering products to their clients;
- **Mass Market-led models** are those in which the country has a robust middle class and the distinction between microinsurance and insurance is ambiguous. Here insurers tend to serve the large and growing middle class, whose volume may hide the need to reach lower income groups;
- **Hybrid models** are in countries that are both strong in microfinance and possess a rapidly growing middle class. This is where countries are expected to ultimately head.
Country-specific cases were presented to understand the characteristics and recommendations for each model.

**COSTA RICA**  
(Frontier Market)  
With private insurers permitted only since 2008, Costa Rica lacks distribution channels.

To support growth, regulators can learn from other jurisdictions, support market research and ensure that regulation allows for experimentation. This market will be driven by individuals who see the opportunity and push to realize it, leveraging such regional networks as REDCAMIF.

**BOLIVIA**  
(Credit Market-led)  
Possessing a vibrant microfinance market that ensures client protection and offers a variety of products, Bolivia must now facilitate alternative distribution.

This can be done through clarified regulation and capacity building, including strengthening the role of the insurance association. Supporting institutions in understanding cost structures and risk will also be critical.

**BRAZIL**  
(Mass Market-led)  
With little effort made to track product value for social performance, and minimal interaction between the client and the insurer or distributor in this type of market, consumer protection and education is critical.

Limited distribution to the poorest and rural populations also indicates that improving coverage is key, through use of technology, enhanced linkages with government programs and others. Brazil will need to actively work to move the market towards a hybrid model.

**COLOMBIA**  
(Hybrid models)  
With a vibrant, commercially sustainable market, a strong insurance association, 25 insurers reporting microinsurance products and two major distribution channels (microfinance institutions and utilities) nearly tapped out, Colombia must shift its focus to long-term thinking.

Such complex products as agricultural insurance are still needed, and existing infrastructure such as call centers can be taken advantage of for strengthened distribution.
Throughout the region, further microinsurance development will require both public and private goods, and the greatest effect will be achieved by focusing on the gaps identified for each of the market typologies.

Regionally, key areas for action include:

- Strengthening the legal framework, including assessing structures in relation to the IAIS “Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets” (2012)
- Strengthening distribution
- Enhancing market education
- Building meso-level capacity and infrastructure
- Building micro- and institution-level capacity

As donors identify where to focus their interventions, these will have greatest impact in the countries with Credit Market-led and Mass Market-led models. In Frontier countries, in contrast, early microinsurance champions must begin to develop before significant interventions can be undertaken. Finally, the hybrid markets can provide lessons and experiences to the rest of the region.

**LESSONS LEARNED**

- Microinsurance has grown significantly in Latin America and the Caribbean since 2005; however, there is still much untapped market potential.
- Key interventions are needed to build up the quality and variety of products as microinsurance continues to grow and reach more people.
- Looking at the four microinsurance market types in the region — Frontier, Credit Market-led, Mass Market-led and Hybrid — allows for identification of unique gaps and opportunities for market growth.
- Areas for action across market types include: legal framework; distribution; market education; meso-level capacity; micro-level capacity.

The aggregated data from the study “The Landscape of Microinsurance in Latin America and the Caribbean” can be explored through an interactive map at [www5.iadb.org/mif/en-us/home/knowledge/developmentdata/microinsurance.aspx](http://www5.iadb.org/mif/en-us/home/knowledge/developmentdata/microinsurance.aspx) or [www.microinsurancecentre.org/landscape-studies.html](http://www.microinsurancecentre.org/landscape-studies.html).
**Figure 1**
Country allocation by market typology

- **Frontier**
- **Credit Market-led**
- **Mass Market-led**
- **Hybrid**

**Source**
McCord, Michael J. Presentation.
“The Landscape of Microinsurance in Latin America and the Caribbean.”
Microinsurance Learning Session: Latin America and the Caribbean 2013.
Figure 2  
Market gaps identified by typology

<table>
<thead>
<tr>
<th>FRONTIER MARKET (LOW/ NO ACCESS)</th>
<th>CREDIT MARKET-LED MODEL (STRONG MFI SECTOR)</th>
<th>MASS MARKET-LED MODEL (RETAIL, ETC.)</th>
<th>HYBRID MODEL (COMBINES MASS AND CREDIT-LED)</th>
</tr>
</thead>
<tbody>
<tr>
<td>› Know-how</td>
<td>› Voluntary sales</td>
<td>› Consumer protection</td>
<td>› Consumer protection</td>
</tr>
<tr>
<td>› Product development</td>
<td>› Back office and IT capacity (large countries/ programs)</td>
<td>› Regulatory support</td>
<td>› Regulatory support</td>
</tr>
<tr>
<td>› Actuarial analysis</td>
<td>› Brokers and intermediaries (small countries)</td>
<td>› Regulatory requirements-policy content</td>
<td>› Cost accounting and controls</td>
</tr>
<tr>
<td>› Voluntary sales</td>
<td>› Cost accounting and controls</td>
<td>› Linkages with mission-led institutions</td>
<td>› IT</td>
</tr>
<tr>
<td>› Regulatory support</td>
<td>› Health covers</td>
<td>› Regulatory support</td>
<td>› Agricultural covers</td>
</tr>
<tr>
<td>› Working with non-MFI channels where MFIs are few</td>
<td>› Agricultural covers</td>
<td>› IT/back office efficiencies and systems</td>
<td>› Health covers</td>
</tr>
<tr>
<td>› IT, especially back office</td>
<td>› Claims assessment technologies (property-agriculture)</td>
<td>› Cost accounting and controls</td>
<td></td>
</tr>
<tr>
<td>› Consumer protection</td>
<td>› Consumer protection</td>
<td>› Agricultural &amp; health covers</td>
<td></td>
</tr>
</tbody>
</table>

Source  
McCord, Michael J. Presentation.  
“The Landscape of Microinsurance in Latin America and the Caribbean.” Microinsurance Learning Session: Latin America and the Caribbean 2013.
Use of technology to strengthen distribution channels and increase outreach of microinsurance
Session 1
The use of technology to improve distribution channels and increase outreach of microinsurance: Case examples of Bradesco Brazil and Seguros MAPFRE in Mexico

Technology is an important tool for microinsurance providers to reduce the cost and increase the efficiency of their programs. One of the ways this is seen in practice is in distribution, where more efficient processes reduce the costs of distribution. Likewise, greater outreach may achieve a product scale that, in turn, drives down costs.

In Mexico, Seguros MAPFRE has developed an integrated information technology portal for microinsurance. Requiring a substantial investment, the portal allows for the easy sales, distribution, control, communications, training, and self-management of the distribution channels.

The beneficiaries of this technology are microfinance institutions (MFIs) that with small portfolios cannot justify the investment in developing such technology themselves. Through the use of this portal, they have a means of processing sales, claims, billing and other transactions in a faster, more efficient and cheaper way.

In Brazil, Bradesco Seguros works with a network of banking correspondents to sell microinsurance. In such a large and expansive country, Bradesco Seguros prides itself on having a presence in all 5,565 municipalities.

The ability to ensure this presence on a cost effective basis comes down to having a simple and efficient point-of-sale system (see Figure 3). Bradesco Seguros sees that the best way to reach the people is through their day-to-day activities. As such, their strategy is to equip pharmacies, bakery stands, hair salons and other places that people visit daily, with a system that enables them to simply and cheaply process insurance sales.

The development of technology, however, does not come without careful consideration of a number of factors. Technology must be designed to meet a specific need or solve a problem.
For example, Seguros MAPFRE specifically considered the cost reduction, resource optimization, service improvements and opportunities that the new technology could bring about for the insurer, distribution channel and final user. They also considered currently unmet training and communications needs that could be addressed through such technology.

The technology must also be designed with careful consideration of the inputs that are available in the places for which it is designed to operate. This might include the availability of internet, phone-lines, or even electricity. Bradesco Seguros’ point-of-sale technology requires electric power, which to-date has not proved an issue even in the remote parts of Brazil. In Mexico’s rural areas, in contrast, reliance on electricity for similar systems has proved a challenge.

Investing in technology requires an expectation that the technology will meet such a scale as to make the investment worthwhile. Bradesco Seguros has its point-of-sale technology in use nationwide in Brazil, building scale through its large client base, in turn spreading risk and resulting in lower prices. Seguros MAPFRE recognizes that each MFI provider of microinsurance is different. While its portal is a one-size-fits all solution to administration, each system is slightly tailored to the needs and best practices of the MFI implementing it.

To Seguros MAPFRE, “technology cannot be separated from a business idea.” As microinsurance is a market with both a lot of growth potential and a still unproven business case, investing money to grow this line of business is an investment risk for the insurer. This investment in a business idea goes hand in hand with the investment in technology to best enable the business to thrive.

As technology continues to develop, what is now current technology will filter through towards the bottom of the pyramid. For example, we will continue to see smartphone penetration increase, as occurred with basic mobile phone penetration. This presents new opportunities for microinsurance to leverage technology; in order to unlock these opportunities, you must be in the market, understand it, and have ideas on how to capitalize on it.

LESSONS LEARNED

— Technology can reduce costs through more efficient distribution, and through driving scale.

— For technology to function effectively, it must meet the needs of the user and be adaptable to the environment in which it works.

— Technology cannot be separated from a business idea. Both have uncertainty in the future and require an investment that entails risks. They must be considered jointly.

— To unlock the opportunities that advancing technology presents, players must already be in the markets on which they wish to capitalize.
Session 1

Figure 3
Bradesco Seguros’ point-of-sale system screen, including selection of a plan and submission of required information.

Source:

Figure 4
The structure of Seguros MAPFRE’s information technology portal.

Source:
The role of insurance associations: Market information and financial education
Session 2
The role of insurance associations: Market information and financial education

Insurance associations have a significant role in the development of the microinsurance market.

Recognizing this, the MIF has worked with FIDES to undertake institutional strengthening activities with the associations, with a particular emphasis on the development of financial education and consumer protection programs.

This session consisted of a conversation among four of these insurance associations, and highlighted the following:

In Brazil, for the National Confederation of Insurance Companies (CNseg), it has been important to find ways to reach the poor and middle income segments of the population and bring about a change in their perception of insurance. To do this, CNseg focused particularly on developing an educational booklet and a parallel cartoon video, which they then used to increase understanding of insurance in Rio de Janeiro’s slums.

The Mexican Association of Insurance Institutions (AMIS) has two microsites on its website to inform consumers and provide financial education:

1) “Nothing is safe, except your insurance” - for the general public;
2) “Grow Up Safe” - a site targeted to educating children about insurance, which is advertised through the magazine Zafo.

In addition, AMIS leads financial education workshops with youth through the Oportunidades (Opportunities) program, a conditional cash transfer program of the Mexican government for the base of the pyramid, and through the “Prepa Sí” (Yes to High School) program. Through these workshops, poor and low-income youth receive financial education, are encouraged to participate in related competitions and are incentivized to disseminate their new knowledge within their community as well as to their peers.

Raúl de Andrea
APESEG, Peru
Recaredo Arias
AMIS, Mexico
Ricardo Tavares
CNseg, Brazil
Carlos Varela
Fasecolada, Colombia
Facilitator
Maria Victoria Saenz
MIF, USA
even sell microinsurance.

For the **Federation of Colombian Insurers (Fasecolda)**, understanding the poor and low-income population’s demand for insurance was crucial. They did so through a rigorous demand study among base of the pyramid clients.

When financial education became mandatory in Colombia for financial institutions in 2009, Fasecolda then leveraged the financial education work it was already doing, through workshops, radio and television programs, leaflet distribution and internet campaigns.

The idea with these financial education projects is to change people’s behavior around risk, making them aware of the characteristics of insurance and their rights and duties, such that they can make an informed decision and ultimately reduce the impact of the risks they face.

Each association chose the target of its financial education program for reasons specific to its market.

- For CNseg, women are the target market because they are the decision makers in families and an authority figure in the society.
- In Mexico, AMIS has taken a long-term view, and thus a particular focus on young people; the older youth will soon be joining the labor market and managing their own finances, and those of their families, at which point it will be important that they have sufficient knowledge to make appropriate decisions around their financial needs.
- Fasecolda targets its programs to the general public, in accordance with the financial education requirements set by the Colombian government. Fasecolda is also currently developing a series of communications targeted to the agricultural sector.

Taking a distinct approach, the **Peruvian Association of Insurance Companies (APESEG)** saw information as the key to supporting market development. Therefore, with MIF support, APESEG developed an IT system that provides statistical information by insurance line, product, channel, number of insured, premiums received, claims paid and geographic location. The system is currently in the pilot phase, receiving information from Peruvian insurers. In February 2014, it will begin receiving information from insurers in the other countries of the region.

One of the most important objectives of APESEG’s project is to generate technical information on microinsurance. The pending question is, how to best convince companies to share this information? APESEG puts forward that associations are precisely the ones best positioned to gather this information because they understand the incentives around providing it and there is a strong relationship of trust with the insurers. The insurers trust that when they provide the information, the association will ensure confidentiality and generate aggregated, rather than individual, information. It is also important to make explicit how the companies can exploit this information and what benefit they will be able to derive from it, such as understanding the evolution of
Session 2

**Figure 5**
Pillars of Fasecolda’s financial education program “Viva Seguro” (Live Safe)

### FAECOLDA’S “LIVE SAFE” FINANCIAL EDUCATION PROGRAM

- **RECOMMENDATIONS**
- **PRINCIPLES**
- **BEST PRACTICES**

G20 / OECD / INTERNATIONAL NETWORK ON FINANCIAL EDUCATION

**Source**

**Figure 6**
Objectives of Fasecolda’s financial education program “Viva Seguro” (Live Safe)

- **MAKING INFORMED RISK MANAGEMENT DECISIONS**
  - Recognize policyholder rights and responsibilities and protection mechanisms
  - Recognize conditions of the insurance
  - Identify characteristics of the insurance
  - Identify financial instruments to reduce risks, and their effectiveness
  - Create awareness of risks

**CONSEQUENCE:**
Change behavior in the face of risks and reduce their impact on households, as well as increase insurance penetration.

**Source**
Another question that arises is which definition will be used to collect the microinsurance information and how this will be handled at the regional level to enable comparability. APESEG’s solution has been to focus at the national level, requesting countries to upload information on those products considered microinsurance under their national guidelines. Unfortunately, homogenizing the definitions and data at a regional level is quite difficult at this point.

Through each of these associations’ projects, a link is seen between financial education and consumer protection:

In the Brazilian case, CNseg highlighted how consumer protection begins with financial education, the latter of which must be continuous in order to provide the microinsurance knowledge people require to be able to make informed decisions.

In Colombia, Fasecolda undertook an impact evaluation of their financial education program, through which they found that those who heard the radio spots better understood the risks to which they are exposed and the concept of insurance; however, they did not understand the specific mechanism of insurance. Nor were there significant changes in their behavior, indicating the need for a more detailed campaign targeting an expanded audience in order to bring about these behavior changes.

In Mexico, AMIS considers it necessary to create a sense of social responsibility and sow seeds for the future, guiding companies so that they see microinsurance as a profitable investment in the long run. Also important is the balance between consumer protection and an appropriate level of regulation so that consumers are not overprotected, inhibiting the development of microinsurance.

LESSONS LEARNED

— Further work is necessary to increase the impact of financial education campaigns such that they bring about a change in behavior.

— To promote microinsurance development, it is essential to strike a balance between consumer protection and appropriate level of regulation that does not inhibit development.

— It is necessary to establish a microinsurance definition in the region so as to permit reliable comparison of statistical information.
Session 2

Figure 7
CNseg, AMIS and Fasecolda financial education materials
Client value: Cases from the Microinsurance Learning and Knowledge Project’s Client Math and from the ILO’s client value assessment tool PACE
Session 3
Client value: Cases from the Microinsurance Learning and Knowledge Project’s Client Math and from the ILO’s client value assessment tool PACE

As the microinsurance market develops and products become more complex, so does assessing client value. Once a simple comparison between premium paid and benefit received, today speed of pay out and quality of services, among other factors, must also be factored into the assessment.

To address the challenge of assessing client value, two methodologies have been developed, both of which take a client-centric approach.

Client Math

Developed by the MicroInsurance Centre’s Microinsurance Learning and Knowledge (MILK) project, Client Math recognizes that the poor have complex financial portfolios, as described in Portfolios of the Poor.1

As such, Client Math looks to understand the costs associated with an event like a family member falling ill or destruction of the house, and then unpack the strategies used to finance these costs and understand how having insurance affects the overall strategy, such as replacing or complementing other coping mechanisms including using savings, selling household goods or borrowing from friends and family.

Two Client Math studies looked at health microinsurance products. Because covering all health expenses is cost prohibitive, health microinsurance products tend to follow one of two models:

- Horizontal: Covers just one type of cost—such as outpatient services, medication, hospitalization or indirect costs, for many illnesses, or
- Vertical: Covers the costs of various steps from prevention to cure, for one type or group of illness—such as breast cancer or hypertension.

### Figure 8
MILK findings on health microinsurance coverage

<table>
<thead>
<tr>
<th>HEALTH NEEDS</th>
<th>NA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indirect costs</td>
<td>• Reduces indirect costs</td>
</tr>
<tr>
<td>Hospitalization</td>
<td>• Reduces burdensome financing</td>
</tr>
<tr>
<td></td>
<td>• Incentivizes use of covered providers</td>
</tr>
<tr>
<td>Medicines</td>
<td>• Reduces direct costs</td>
</tr>
<tr>
<td></td>
<td>• Reduces burdensome financing</td>
</tr>
<tr>
<td></td>
<td>• Possibly incentivizes seeking of medical attention</td>
</tr>
<tr>
<td>Outpatient - Curative</td>
<td>• Does not reduce direct costs (without a subsidy)</td>
</tr>
<tr>
<td></td>
<td>• Reduces burdensome financing</td>
</tr>
<tr>
<td></td>
<td>• Incentivizes prevention</td>
</tr>
<tr>
<td>Outpatient - Preventive</td>
<td>• Does not reduce direct costs (without a subsidy) and may possibly increase costs</td>
</tr>
<tr>
<td></td>
<td>• Reduces burdensome financing</td>
</tr>
<tr>
<td></td>
<td>• Incentivizes prevention</td>
</tr>
</tbody>
</table>

**Source**
Session 3

Determining whether a product should offer horizontal or vertical cover depends on the needs and preferences of the target market, as well as on the costs of each type of coverage. Both health products presented in the session offered vertical coverage.

In Nigeria, MILK studied the Hygeia Community Health Care (HCHC) hypertension insurance product for low-income families in Lagos. They focused on outpatient chronic disease management, including direct costs of clinic visits, diagnostic testing and drugs, as well as indirect behavior changes such as exercise, dietary changes and regular adherence to a drug regimen. Because of its complexity and duration, it is often difficult to assign a financial cost to chronic disease, but doing so has important consequences for understanding client value in terms of both financial savings and health outcomes.

The Client Math methodology demonstrated that among individuals with hypertension, those who were insured had much lower treatment costs and used preventive hypertension services more frequently and consistently than those who were uninsured. Insured respondents were also more likely to adopt recommended dietary changes, resulting in new and unforeseen costs for this group. While increased spending on diet may improve health outcomes, it may also discourage short-term usage of health services.

In Guatemala, MILK studied Aseguradora Rural’s Vivo Segura policy aimed at prevention and treatment of cancer for rural women. Here Client Math revealed that for coverage of routine, low cost needs, insurance coverage may not lead to overall cost savings (when the premium cost is included), but insurance can still have value in cash flow smoothing. Additionally, the insured more often sought care preventatively.

Across these and other studies, the MILK project has found that the impact that health microinsurance has on cost varies according to the types of costs that are covered by the product. See Figure 8 “MILK Findings on Health Microinsurance Coverage”.

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PACE

Developed by the Microinsurance Innovation Facility of the International Labour Organization, the PACE tool is based on client protection principles and assesses how the value of microinsurance products compares to that of competitors or of informal mechanisms. Standing for Product - Access - Cost - Experience, PACE assesses these four dimensions using a variety of inputs, including at times Client Math.

Given the frequency with which products are modified and tweaked during their early years, the focus of PACE is on informing how to improve products, rather than proving their value. Once the products are refined, resources can then be invested in tools to prove value.

A PACE analysis was conducted of Aseguradora Rural’s Vivo Segura product, in addition to the Client Math analysis also undertaken. The PACE analysis found that Vivo Segura was preferable to the competitor’s cancer prevention and treatment product on all elements, as the product provided fuller coverage, had good value for its cost and provided an easy and convenient experience. On the other hand, PACE revealed that private microinsurance can rarely compete with public health care in terms of cost and coverage completeness, though it does help close gaps in access to public programs.

By applying PACE, insurers and distribution channels can improve their products and monitor these improvements over time. For governments, donors and investors, PACE offers a tool to better target assistance and to benchmark against alternative policies and risk management strategies.

LESSONS LEARNED

— Assessing client value is more difficult as products become more complex, making assessment tools that much more critical.
— Client value assessment tools enable insurers and distribution channels to improve their products while supporting governments, donors and investors in targeting their assistance and benchmark against alternative policies and risk management strategies.
— Client Math, PACE and other tools such as randomized control trials can complement each other; however, it is critical to select the correct tool for the questions at hand, stage of product development and resources available.
— The impact of health microinsurance on costs incurred by the beneficiary varies according to the types of costs that are covered by the product and how these interact with local needs and prices.
Figure 9
PACE analysis framework

Source
Poulton, Derek. Presentation
“Improving Client Value with PACE”
Microinsurance Learning Session: Latin America and the Caribbean 2013.
How to provide microinsurance to those who are truly poor
Session 4
How to provide insurance to those who are truly poor

One of the biggest challenges today is how to provide microinsurance to the poorest populations. This includes aspects of how to reach them, clearly understanding their needs, address these, monitoring behavior and finding the right balance between outreach (number of beneficiaries) and business viability for the insurer. The combination of these elements is what is known as social performance management.

The Social Performance Indicators in Microinsurance Handbook, published in March 2013, defines social performance as: “The effective design and delivery of products that create value for low-income people by allowing them to more effectively manage risk.”

By monitoring social performance, an organization can adjust products, increase customer retention, lower operating costs, enhance its reputation, strengthen its processes and grow.

In this context, one has to ask, what is the niche that we want to target within the range of the poor, what are their characteristics and what needs are most urgent to address?

For the Mexican Association of Social Sector Credit Unions (AMUCSS) the most important aspect is offering added value to the end user. AMUCSS has achieved this primarily through three actions:

- Creation of a culture of prevention,
- Closeness of the insurance company and the distribution channel, and
- Products’ social focus such that all involved ultimately benefit.

Rennata González Brachet
Compartamos Banco,
Mexico

Lorena Pedraza
Zurich Seguros,
Mexico

Isabel Cruz
AMUCSS,
Mexico

Moderator
Véronique Faber
Microinsurance Network,
Luxembourg
Moreover, this is all part of developing an understanding of the real needs of the market which takes place through a long process of constant contact with clients as well as informal and formal studies.

Likewise, over time Zurich Mexico has been able to leverage its partnership with AMUCSS. The partnership has enabled it to identify business opportunities as well as the most socially-oriented way to take advantage of these opportunities without foregoing product sustainability.

In the case of Compartamos Banco, through studies conducted by its broker ATERNA they have identified a range of additional factors that have to be taken into account when designing a product appropriate for the poor. These factors include:

- The customer’s stage of life: this is crucial because it can highlight variants of a need and necessitate product changes;
- The location of customers-inequalities between geographic areas must be considered, this is primarily in terms of access to basic services and lack or presence of infrastructure which may require a different operating structure with a different product cost.

As such, Compartamos Banco offers products with variants, such as Life Insurance and Comprehensive Life Insurance.

To develop these variants, Compartamos Banco undertakes market segmentation. Here they develop an analysis, selecting independent and dependent variables in order to identify and describe the distinct segments.

Among the segmentation variables considered are:
- Life stage,
- Life goals,
- Feelings of vulnerability, impact and reflexivity.

From this analysis, Compartamos Banco has developed the following coverage options:
- Basic Coverage: Providing the most essential coverage for the individual.
- Additional Coverages: These respond to the priorities of each person depending on their stage of life.
- Support Services: These make the product offering tangible.

For Compartamos Banco and AMUCSS, the distribution channel’s role is highly important not only for distribution but also to support:

- Identification of client needs;
- Development of attractive incentive programs for sales agents;
- Leveraging of clients’ existing trust in, and knowledge of, their local financial institution;
- Provision of feedback to the insurer on how to improve the products and services.
Session 4

Strategic partnerships are key to delivering insurance to rural and poorer areas in a viable manner. Different partnerships may even be necessary for different products, as has been demonstrated in the case of AMUCSS’ repatriation product.

Today insurers must offer more service: increased diversity of products, flexibility in the form of payment, products adapted to match the characteristics of the target market, enhanced efficiency in claims payments and more generally, product offerings as part of a packet of financial services that complement current informal strategies.

LESSONS LEARNED

— Profitability depends on scale, but it must be accompanied by a social perspective, in other words a delicate balance is necessary between providing coverage that offers value to the individual and community, and financial viability.

— To achieve greater penetration and impact, the business model must be adapted across four levels: the client, the distribution channel, the insurer and the regulatory framework.

— Distribution channels are not static; they must constantly evolve and anticipate changes in the market, indicating the particular importance of knowing and re-knowing your customer.

— The best distribution channels are those which provide customer feedback, enabling service and product improvements and strengthening of insurance products’ linkages with other financial services.

— Most important is effective client protection, which consists of: mass financial education adapted to the public, clarity and transparency of product features and efficient claims payments to make tangible the insurance product’s benefits.
Lessons Learned

- Profitability depends on scale, but it must be accompanied by a social perspective, in other words a delicate balance is necessary between providing coverage that offers value to the individual and community, and financial viability.

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Figure 10
Product adaptation

Source
Agricultural and catastrophe microinsurance
Session 5
Agricultural and catastrophe microinsurance

Agriculture is an important sector to many developing and emerging economies, providing employment to large segments of their rural population. At the same time, climate risk and weather events are a threat to farmers, particularly small-scale farmers, whose already small incomes do not cope well with shocks.

In this context, insurance can fulfill multiple functions to help meet the needs of the region and facilitate climate change adaptation:

- Assess and price risks
- Reduce financial repercussions of volatility, creating more certainty
- Incentivize loss reduction & resilience building activities
- Provide timely finance to compensate damage

Various agriculture and catastrophe insurance products doing just that were presented in the session:

Agrobanco in Peru was created to grant credit to the agricultural sector. They also recognize that insurance is important for protecting agricultural loans and the credit worthiness of the borrowers. Here microinsurance is conceptualized to contribute to the continued production and investment in the agricultural sector, and eventually, the generation of wealth. Agrobanco complements this credit and insurance offering with technical assistance to its borrowers, further mitigating risk.

Sobiah Becker
Munich Climate Insurance Initiative, Germany

Lourdes Del Carpio Gomez de la Torre
La Positiva, Peru

Walter Reátegui
Agrobanco, Peru

Cecilia Tondelli
PROFIN Foundation, Bolivia

Moderator
Dirk Reinhard
Munich Re Foundation, Germany
La Positiva in Peru partners with Agrobanco, leveraging Agrobanco’s network to offer agricultural insurance products tailored to different-sized borrowers.

One such product is La Positiva’s catastrophe agricultural insurance product, for micro- and small-scale subsistence farmers. The program offers protection against climate risks, pests and disease for 10 types of crops. It operates widely over 23% of the hectares cultivated in the country, entirely in regions of high marginalization as selected by the Ministry of Agriculture.

The premium is completely subsidized by the state; a diverse committee of government representatives manages the fund while the ministry determines the sum insured for the region, ranging from US$ 115 to US$ 270 per hectare. The regional government, meanwhile, determines the crops that will be covered and is charged with informing the insurer of all damages. This represents a critical devolution from the central government previously being the one to make this determination of coverage; however, there is still opportunity to involve producers in this process to ensure that the risks selected for coverage are aligned with the region’s needs.

Indexed to crop performance, policyholders receive a payout when the per-hectare yield falls below 40% in a random sample of plots in the set geographical zone. In the four years that this insurance has been operating, 157,000 poor farmers have received payouts from La Positiva, with a claims rate of 56.2%. Since 2013, all payouts are made into savings accounts, which has had the added result of over 13,000 new savings accounts being opened. The results of La Positiva’s product to-date are shown in Figure 12.

**Figure 11**
Results of La Positiva’s catastrophe agricultural insurance product for micro- and small-scale subsistence farmers

<table>
<thead>
<tr>
<th>Year</th>
<th>CLAIMS PAID (US$)</th>
<th>NUMBER OF CLAIMS PAID</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-2010</td>
<td>$2,602,412</td>
<td>25,228</td>
</tr>
<tr>
<td>2010-2011</td>
<td>$7,301,746</td>
<td>77,518</td>
</tr>
<tr>
<td>2011-2012</td>
<td>$2,094,042</td>
<td>26,600</td>
</tr>
<tr>
<td>2012-2013(*)</td>
<td>$2,459,191</td>
<td>27,612</td>
</tr>
</tbody>
</table>

*Source*

(*) Approximate numbers
This year La Positiva also brought to market an unsubsidized, commercial agricultural insurance product for small- and medium-scale farmers. Distributed through financial institutions and Agrobanco where the premium is financed by the financial institution as part of the loan, the product insures against climate risks only. As a result of the diversity of Agrobanco’s portfolio, La Positiva is able to charge one single premium, of 3.304%, regardless of the region or crop type, which supports massification. In contrast to the aforementioned catastrophe agricultural insurance product, losses are assessed through an individual field inspection process. In the six months from inception to September 2013, a total of 3,934 policies were sold, corresponding to over 11,000 hectares, 430 million soles (approximately US$ 155 million) in sum insured and 2.3 million soles (approximately US$ 841,000) in premiums.

**PROFIN Foundation** in Bolivia also targets its agricultural insurance product at small-scale producers. While the country has some of the highest rates of microfinance penetration in the region, it still suffers from a lack of adequate distribution channels, as well as other microinsurance challenges including inadequate regulation, lack of data for pricing and very high transaction costs in part due to the geographic dispersion of clients whose cultivated land is sometimes as small as ¼ hectare.

PROFIN has worked to develop products for six crops. Each scheme utilizes a risk transfer fund, rather than insurance per se, given regulations, and claims are paid from the premiums as well as returns from the invested fund. As the ultimate goal is to transfer these schemes to regulated insurers, PROFIN builds the scheme’s processes for transferability, as well as includes strong consumer education on prevention, mitigation and awareness-building. By offering composite life-agricultural products, the scheme’s sustainability is further strengthened.

Looking at one product, PROFIN’s piloted composite microinsurance product in the department of Tarija covers life, potato and corn crops and assets. Sold by two insurers in order to cover the composite risks, the product is distributed through cooperatives and microfinance institutions with the support of a private financial fund which provides credit to assist with the product’s cost of US$ 95. Agricultural payouts are determined by the average yields of farmers in a particular area and made when yield is below 65% of the region’s historical average, the level of the payout being on a sliding scale up to US$ 870 based on yield.
Session 5

Resulting in mixed success, PROFIN’s pilot faced a number of challenges. Perverse government incentives minimized use of risk reduction strategies and the homogenous risk zones turned out to be quite heterogeneous, creating excessively large basis risk. Ex gratia payments, however, meant the level of satisfaction among the purchasing farmers was very high. Distribution channels that were strong and had rural coverage were nevertheless located at an inhibitive distance for many of the farmers. In many cases, the product was simply not a priority for these farmers and their understanding of it was low.

Despite this, the claims that resulted from the product drew interest from other farmers, and greater interest is now being seen by insurance companies to enter this market and by the government to offer the product nationally.

The Munich Climate Insurance Initiative (MCII) has developed a “Livelihood Protection Policy”, a parametric weather index insurance product for the Caribbean that pays policyholders based on pre-determined levels of rain and wind speed being reached. A business interruption product, MCII has priced it for individuals who are 25% above the poverty line, and by selling it in units, individuals are able to choose the level of cover most appropriate for them. Each US$ 30 unit provides US$ 370 worth of coverage for a year.

As a region under constant threat of extreme weather events, the product aims to prevent populations from relying on risk coping strategies that push them further into poverty. For example, demand research for the product indicated that nearly 70% of people use savings to pay for unexpected weather-related losses, a strategy that is not viable for long-term development. Concurrently, over half of those interviewed indicated a level of demand for the product that was moderate or higher. The product also aims to improve access to credit for policyholders, and encourage risk aware behavior.

Utilizing historical wind and precipitation data from the Japanese Aerospace Agency, NASA’s Tropical Rainfall Measurement and Monitoring Satellite System and Caribbean Catastrophe Risk Insurance Facility’s Wind Model, MCII ran correlation analysis to determine four threshold levels and the payout structure. Challenges of data inaccuracy caused by using a spatial resolution that was too high led MCII to reduce the number of measuring points.

MCII undertakes strong outreach and educational efforts, including street theater that proved to be highly engaging and will be turned into a commercial co-branded with the government, and collaboration with the community Disaster Management Agencies. This is complemented with early warning SMSs to all policyholders in order to facilitate behavior change.
Figure 12
Munich Climate Insurance Initiative’s market development approach for parametric weather index insurance

Source
Sobiah Becker. Presentation.
Having a payout that is parametric in nature ensures that payouts are received within 14 days after a disaster. At the same time, with islands of relatively small populations, MCII’s product faces a challenge to reach scale. This is further compounded by the need for education on how parametric insurance works.

MCII has also designed a Loan Portfolio Cover to improve the financial liquidity of lending institutions whose portfolio is exposed to extreme weather, such as the agricultural sector, ultimately increasing economic activity.

Agricultural and weather insurance is a vital tool for low-income populations to manage their risks in a way that is not detrimental to their longer-term development prospects. Furthermore, it contributes to the continued access to credit.

For the product providers, however, a number of challenges remain for offering a product on a cost effective basis. Rural populations are hard to reach which can raise transaction costs for the provider. A lack of data can also make pricing difficult. Nonetheless, public-private partnerships have been seen to be an effective way to overcome some of these barriers, with governments increasing affordability of insurance to low-income populations through providing complete or partial subsidies.

### LESSONS LEARNED

— Insurance products can substitute alternative risk coping strategies that have an adverse effect on long-term development prospects, such as the use of savings to pay for damages from natural disasters.

— Agricultural insurance plays an important role for farmers to have continued access to credit.

— There is a need for financial education to accompany insurance products, particularly parametric products that are more technical in nature.

— All stakeholders within a microinsurance offering need to have a medium-to long-term vision.

— Public-private partnerships can be an invaluable tool to help a product reach scale.
Figure 13
Penetration of agricultural insurance in Latin America and the Caribbean (premium ÷ agriculture GDP)

From

Source