

# MICROINSURANCE

## Improving risk management for the poor

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The Working Group on Microinsurance, initiated by CGAP and comprising of representatives from donors, multilateral agencies, NGOs, private insurance companies and other interested parties, was established in 2001 to promote the development of insurance services for the poor through increased stakeholder coordination and information sharing. Currently chaired by the International Labour Organization (ILO), the Working Group is organised into subgroups. To share information about microinsurance initiatives, the Working Group issues this quarterly Newsletter. For more information contact Craig Churchill, [churchill@ilo.org](mailto:churchill@ilo.org)

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CGAP WORKING GROUP ON  
**MICROINSURANCE**

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## Concept

### VISIONS OF THE FUTURE OF MICROINSURANCE, AND THOUGHTS ON GETTING THERE

The final issue in a series of microinsurance related notes, published by USAID, discusses how to achieve massification or a better spread of microinsurance.

The vision of good quality microinsurance products reaching hundreds of millions of low-income people across the globe is attainable, but many inputs are still required. The note compiles the thoughts of 18 key microinsurance thinkers and practitioners that should help us to refine that vision and, more importantly, help us better understand the path we need to take to get there.

Among these thinkers were promoters of various models, from different backgrounds, and a wide geographical range. In addressing the two key questions: What achievements are necessary to generate massification? and What changes or innovations are necessary to reach these achievements over the next ten years?, six key levels for massification were identified:

#### Market

- Low-income people have typically poor education, little experience with insurance, and a very weak trust of companies and agents.
- Reinsurers will play a more important role in terms of data on comprehensive losses and their capacity to absorb massive risks.
- To effectively reach low-income households, insurers need to build a trustful relationship with families so that they can appreciate insurance as an effective financial tool.

#### Ownership

- In order to create value, a structure of local decision-making and ownership is necessary. Massification then requires both the strengthening of local capacity coupled with links to broader risk pooling mechanisms.
- High value coverage is crucial for low-income households.
- Success with such tools requires a mechanism of educating people and appropriate controls, providing better information to potential policyholders.

#### Commercial microinsurance

- Microinsurance can be affordable, simple and valuable.
- To develop and offer products, microinsurance needs to improve its delivery channels using better affordable technology and by introducing key leaders in communities to help generate massification.
- Reinsurers will play a more important role in terms of data on comprehensive losses and their capacity to absorb massive risks.

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## The role of infrastructure and technology

- To make microinsurance largely available, a balance between the level of human contact and the level of technology are key issues.
- Moving to less non-labour intensive means of selling and servicing microinsurance in an effort to bring down costs is also essential.
- Maintaining and improving product values to policyholders, in order to cover lives of many millions of low-income people and their families.

## Governments

- Appropriate policies, regulation, and supervision will help facilitate massification. Governments has several roles in providing social protection for those with very low-income. Too often, there is little or no consideration of how social protection and microinsurance can work together, to make each more efficient, and thus more effective.
- Government's role is to address the needs of those who cannot reasonably be covered by using these other programs.

## Donors

- Donors, from bi-and multi-lateral public sources, to foundations and others, are likely to have a significant role in the massification of microinsurance products of value to the low-income markets.
- Donors have an important role bringing parties together, and in pushing processes and products to the next level of value with efficiency. In addition, public money should support these efforts and not replace or compete with them.

Full paper: [http://www.microlinks.org/en.php?ID=22877\\_201&ID2=DO\\_TOPIC](http://www.microlinks.org/en.php?ID=22877_201&ID2=DO_TOPIC)

## Concept

### NATURAL DISASTER MANAGEMENT AND MICROINSURANCE IN THE URBAN CONTEXT

The 2004 Tsunami in South and Southeast Asia, and the earthquakes in China, Pakistan and Indonesia show that disaster management is of ongoing importance. As a consequence of climate change, extreme events are expected to increase in the future. Considering absolute financial figures, extreme events have a much higher impact in developing countries than in industrialized countries. Munich Re (2005) shows that between 1985 and 1999, disasters caused losses equal to 13.4% of the gross domestic product (GDP) in developing countries, as compared with only 2.5% in industrialized countries. Considering the assumption that 75% of the poor are directly or indirectly employed in the agricultural sector and given the fact that agriculture highly depends on weather and climate, extreme events and climate change are expected to have an adversely high impact on low income households.

Governments in less developed countries are responding to the increasing frequency of disaster events and the expected impacts of climate change by allocating an ever increasing budget to cover disaster risk management and disaster risk losses. At the same time, most developing countries are considered being unable to meet these costs.

However, focusing on rural areas is not enough though. Two-thirds of the megacities are located in developing countries and most of them are vulnerable to sea rise levels and flooding, as most of them are located in coastal zones. A significant amount of the poor lives in these cities. Most slums are informal settlements and are located close to rivers, to the sea or next to railway tracks. As such, they are very vulnerable to natural hazards especially floods or fires. And, because these settlements are densely populated, many people are affected at the same time.

Disasters affect their everyday life; nonetheless the urban poor also form resilient communities and have learned to live in such an environment. Due to lacking economic capital and access to natural resources in the city, urban poor have developed collective adaptation strategies to cope with disturbances. In fact, the level of organization in slum areas is very high and grass root systems can be found in most of them.

Whether microinsurance can support urban livelihoods does depend on how risk management instruments like microinsurance can be adapted to their lifestyle. Involving the target group in the product development process should not be limited to focus groups; they could take a leading role in designing the product, otherwise microinsurance schemes might not be adapted to their needs. Group insurance corresponds better to the risk management strategy of the urban poor, as grass root groups play an important role in local adaptation strategies. To avoid adverse selections, groups insurance would be useful, but should not be formed only for the purpose of getting access to insurance schemes.

#### Why programmes should also focus on the urban context?

1. Risk management in (mega) cities will become a topical interest due to dynamics of urbanisation and climate change.
2. Currently, the majority of weather and disaster related insurance schemes are focusing on the rural context.
3. Complex urban settings require case sensitive risk management solutions and integration of the target group in product design.
4. The general discussion on group or individual insurance schemes has to integrate the perspective of the target group, since grass root organisations play an important role in local adaptive strategies.

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## Case Study Focus

### MICROINSURANCE IN HAITI: FONKOZE AND A.I.C.

In 2007, microinsurance was launched in Haiti by the microfinance institution Fonkoze in collaboration with Alternative Insurance Company S.A (A.I.C.), a multi-line insurance company. The product is a short term credit life insurance, delivered by Fonkoze that covers the MFI and the family in the case of a borrower's death.

The Haitian population counts more than 8.000.000 inhabitants and only 200.000 have access to insurance coverage. One of the biggest challenges for microinsurance in Haiti is the fact that most poor people do not have identity cards and thus can't access financial services. To overcome this problem, Fonkoze created a microinsurance picture ID that is being given to every client.

Today more than 31.000 customers are assured through this programme. The lack of insurance legislation in Haiti is also an obstacle to the development of microinsurance and does not facilitate microinsurance accessibility.

Another problem is the lack of cultural risk prevention and therefore, A.I.C commits itself to financial education and information and their implication at the customer level is a long term project. Microinsurance is a relatively new concept in Haiti, especially in the informal sector.

Therefore, before launching the microinsurance product, different humanitarian associations collaborated

with the project and provided training to ensure that the product is understood and accepted by the population.

Training sessions were also set up for Fonkoze agents, and support documentation such as a handbook for credit agents was produced. Focus groups were set up in order to evaluate the product at the customer and at credit agent level.

The plan is to introduce other microinsurance products, in order to make them institutionalised and sustainable.

For more information visit:  
[www.fonkoze.org](http://www.fonkoze.org)

## Selected Info

### New Publications

#### Case Study Healing Fields Foundation (USAID India, May 2008)

The Healing Fields Foundation model seeks to achieve its objectives by playing the role of an NGO health management organization (HMO), or Service Integrator, which creates a healthcare financing and administration "ecosystem" for the poor: Design and pricing of group health insurance products, identification of hospitals with appropriate infrastructure, claim administration services, and so on.

Publication available at <http://www.usaid.gov/in/>

#### Case Study: Shepherd Evolution of the Microinsurance Partner-Agent Model (April 2008)

Shepherd launched its microinsurance activities under a partner-agent model linking with different insurers (Life Insurance Corporation, United India Insurance, Bajaj Allianz etc.). The partnership agreement signed between the partner and the agent details the product elements, and the roles and obligations of both parties.

Publication available at <http://www.microfinancegateway.org/content/article/detail/49716>

#### Microinsurance for Markets Affected by HIV/AIDS (USAID, MicroNote Nr. 3, April 2008)

This note explores how microinsurance can be an effective risk management strategy to poor households affected by HIV/AIDS, how different insurers have responded to the pandemic with appropriate and affordable coverage, and the challenges and risks inherent in serving these communities.

Publication available at [http://www.microlinks.org/ev\\_en.php?ID=23473\\_201&ID2=DO\\_TOPIC](http://www.microlinks.org/ev_en.php?ID=23473_201&ID2=DO_TOPIC)

## Newsletters

### PROSPER Newsletter Nr. 3 (ICMIF, May 2008)

The third issue of the ICMIF Development Newsletter "Prosper" has updates from ICMIF Members; a report on the Third International Microinsurance Conference held in 2007, on the new Microinsurance Innovation Facility and the presentation of a micro-takaful scheme operated by Amana Takaful in Sri Lanka.

Publication available at [www.icmif.org/prosper](http://www.icmif.org/prosper)

### G-NEWS Nr. 3 (ILO/STEP, March 2008)

G-NEWS Nr. 3, produced by the ILO/STEP Programme G-NEWS, includes news posted by users from September 2007 to February 2008, as well as information on training, conferences, resources, events, and an article on "Mutual Organizations Inventory and Mutual Health Organization in Cameroun".

Publication available at <http://www.ilo.org/gimi/RessShowRessource.do?ressourceId=5215&longTitle=G-News+No.+3&author=ILO-STEP&ressYear=2008>

## Other News

### Spotlight on Agricultural Microinsurance on [www.microinsurancecenter.org](http://www.microinsurancecenter.org)

The Microinsurance Centre has updated its website with a large number of documents, links on agricultural microinsurance, and information on experts on the subject.

Visit [www.microinsurancecentre.org](http://www.microinsurancecentre.org)

### Reinsurance for Microinsurance Schemes School

The Micro Insurance Academy organises the 2nd Reinsurance School for Microinsurance Schemes on 15-17 October 2008 in New Delhi, India. This school aims to demystify reinsurance for people engaged in, or supportive of, sustaining microinsurance units and includes lectures, interactive sessions and case-studies.

For further details, contact [info@mia.org.in](mailto:info@mia.org.in)

## News from the Working Group

### Dissemination Sub-group

The **Microinsurance Conference 2008** will take place from 5 to 7 November 2008, in Cartagena, Colombia. This event is the fourth international Microinsurance Conference jointly hosted by the CGAP Working Group on Microinsurance and the Munich Re Foundation, this time supported by Fasesolda, FIDES and the Superintendencia Financiera de Colombia. Around 300 experts from around the world will exchange experiences and discuss the challenges of microinsurance.

The four topics of this year's conference are: Technology, capacity building, regulation, distribution channels, supervision and policy issues and innovative products.

Programme and information available at: [www.microinsuranceconference2008.org](http://www.microinsuranceconference2008.org)

## Impact Sub-group

The Impact Sub-group is developing an **Impact Assessment Framework**, which is based on an initial collection of documented evidence of impact research. This framework should flag out the different impact dimensions microinsurance can have on various levels/stakeholders. Relevant research will be linked with the different dimensions identified. The sub-group thus appreciates any suggestions and information being shared on research into the impact of microinsurance – be it ongoing or concluded.

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## Performance Indicators and Capacity Building Sub-group

The Performance Indicators Sub-group together with the Capacity Building one and **INAFI India** held the first regional pilot training on **Performance Indicators for Microinsurance Providers** in Chennai, India, in July 2008 with more than fifteen different microinsurance providers and trainers. This workshop is based on the Performance Indicator Handbook, published earlier this year and Africa (Senegal)

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## Technology Sub-group

The Technology Sub-group and the Microinsurance Innovation Facility are compiling an **inventory of information technologies** that are or could be applicable in the extension of insurance services to low-income households.

The objectives of the study are to catalogue and illustrate all kinds of technologies used or potentially useable in the area of microinsurance. The areas of the study include data collection, communications, management information systems and services to support microinsurance practitioners and to support capacity building groups working with these organisations. Everyone participating in the survey is making a material contribution to advancing the common understanding of technology and microinsurance.

Three different questionnaires are available:

1. User Profile Questionnaire

This questionnaire records contact details and is targeted at people who have a general interest in the subject of the application of technology to microinsurance.

2. Field Experience Questionnaire

This questionnaire is aimed at microinsurance providers and practitioners and assesses the level of information technology used by them in the field.

3. Systems and Requirements Questionnaire

This questionnaire identifies and describes the different types of technology currently available on the market.

Go to [www.ibex.ch/TM/index.html](http://www.ibex.ch/TM/index.html)

## Regulation, Supervision and Policy Sub-group

At the **Making Finance Work for Africa Partnership Forum** in Accra, Ghana, June 2008, policy makers, practitioners and other financial sector representatives met to discuss what needs to be done to support the efforts of African countries to accelerate economic growth and reduce poverty by facilitating financial sector development. The development of an enabling policy including regulatory, judicial, supervisory and legal environment was pointed out as the top priority for making finance work for Africa.

The Regulation, Supervision and Policy Sub-group organised an Open Space Session on **Inclusive Insurance Markets for the Poor: Challenges for Institutions and Policy**. Participants emphasised the need for capacity building on all levels (e.g. policy, intermediary, provider and consumer). Growth is important, however, ensuring that the poor have access to value-for-money products, requires awareness and knowledgeable policymakers, regulators and supervisors. Capacity building for authorities is therefore especially relevant when it comes to consumer protection and governance.

Furthermore, the huge demand for agricultural insurance was highlighted, e.g. index based weather insurance. The lack of reliable weather data is, however, a bottleneck in terms of efforts to increase the provision of index based weather insurance.

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## MICROINSURANCE INNOVATION FACILITY



### Second Round: Call for Innovation Grants

The Microinsurance Innovation Facility was established in 2008 to support the extension of quality insurance to protect millions of low-income people in developing countries. To achieve this mandate, the Facility will provide 40 to 50 innovation grants over the next three years, totalling US\$18 million, through biannual requests for applications.

The grants are intended to help institutions develop new microinsurance products and models by covering their start-up costs and some of the losses likely to be incurred during the project. Projects can be new or already underway, but should be viable at the end of the grant period (maximum three years) because either they have become self-sustaining or they can draw on other resources.

A key criterion for these grants is that they must be for innovative initiatives. The innovation grants support action research, dynamic efforts to introduce new products, processes or models, or improve on existing ones. Innovation involves taking risks, venturing into uncharted territory in the hope of achieving something beneficial for consumers such as creating new mechanisms for premium collection, testing approaches to streamline claims verification, using technology to improve efficiency, or experimenting with ways to educate consumers. The grants relate to insurance against any type of risk, but priority is given to products where demand outstrips supply, including agriculture, health, life and property.

The Facility is particularly interested in collaborating with institutions, both for-profit and non profit, in Africa, Asia, Latin America and the Middle East. Risk carriers (insurance companies, semi-formal microinsurers and federations of microinsurance schemes), delivery channels such as NGOs, cooperatives, labour unions, employer associations, banks, insurance brokers and health care providers, and suppliers to the insurance industry are encouraged to collaborate to develop innovative projects.

The Facility now launches its second call for innovation grants. Interested applicants can find the grant application guidelines and the on-line application form on [www.ilo.org/socialfinance](http://www.ilo.org/socialfinance)

The application deadline for Round two is 17 September 2008.

For more information, contact the Facility at: [microinsurance@ilo.org](mailto:microinsurance@ilo.org)

For more information on the Working Group activities, click on the "About Us" section on [www.microinsurancefocus.org](http://www.microinsurancefocus.org)