

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 eight subgroups. To share information about microinsurance initiatives, the Working Group issues this quarterly Newsletter. For more information contact Craig Churchill, churchill@ilo.org

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Concept

DEVELOPING A LEGAL FRAMEWORK FOR MUTUAL ORGANISATIONS IN WAEMU MEMBER STATES

Over 90% of people in the eight Member States of the West African Economic and Monetary Union (WAEMU)¹ have no form of social protection, particularly health insurance. Mutual health insurance organisations aim to fill this gap and provide some form of social security to those left out by formal social insurance systems.

These organisations have developed considerably in the last ten years, despite the lack of an enabling legal environment for them to do so. Only Mali (1996) and Senegal (2003) have enacted laws on mutual organisations, but Senegal has still not passed orders to enforce its own law.

It is in this context that the "Support for Building a Regional Framework to Develop Mutual Health Organisations in WAEMU Countries" project was designed and executed by ILO/STEP, and addressed a request from WAEMU to create an enabling legal environment for developing mutual organisations.

A participatory process was initiated in each of the eight WAEMU Member States, as well as across the sub-regions, to encourage practitioners to become aware of the conditions of the actors concerned, involve them in the law making process,

and permit them to gain full ownership of the outcomes; especially governments that have the responsibility of moving the laws forward until they are enacted.

Legal Framework Design

The legal framework for the WAEMU Member States was designed to:

- Give legal aid to mutual organization members by crafting rules to framework the activities of mutual organizations;
- Support the development of mutual organizations by setting a number of rules that would improve their credibility and reliability;
- Recognise that mutual organizations help promote the right to health and the right to social security, a responsibility that lies primarily with the State, so that the public authorities support their activities accordingly;
- Devise rules for highlighting the particularities of mutual organizations, which operate neither as public nor private organizations.

It is from the results of the participatory workshops and discussions with all stakeholders that a proposed community act on mutual organisations was developed, along with a proposed

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executing law on prudential rules for short-term risks and ground rules for creating, coordinating and operationalising mutual organizations. These proposals were finalised in November 2006 and have been submitted to the Commission and Council of WAEMU Ministers for review and adoption.

Major Outcomes

This process has made it possible to achieve significant results that need to be taken forward. First, it endowed the sub-region with a regulation that recognizes

the specific status of mutual organisations as set-ups working for the public good to promote fundamental rights. This regulation, designed as a community regulation - the most binding act of law WAEMU can adopt - is the first of its kind across the world. It shows the benefits of working inside a sub-regional integration framework, the gains various countries can get by working together (spill over effect), and how the impact of legal provisions is reinforced (sub-regional level, rather than country level). The community regulation on mutual organizations also marks the political will of WAEMU Member States to recognize mutual organizations' role in covering social risks, particularly sickness risk.

Once the laws are enacted, they will make an impact on West Africa's mutual insurance landscape. Mutual organizations will be bound to comply with a certain number of obligations like conducting feasibility studies based on pre-established rules, book keeping, fundraising, drafting internal rules and regulations with precise provisions, etc. They will also enjoy certain prerogatives like juridical personality, the right to subsidies and tax waivers. The community regulation makes provision for new institutions, such as a national register of mutual associations, a control authority, and a guarantee fund. With the introduction of these laws, there will be a need for information, awareness and training initiatives, as well as the provision of funds to finance the new structures. The participatory approach used during

the entire process has buttressed the path for these new rules to be accepted well, and to be backed by a wide cross-section of practitioners who will be in favour of implementing them.

In the current context of international debate on microinsurance, WAEMU's regulation is an example of a sub-regional regulation that accords a specific place to a different health insurance model.

Source: Sabrina Regent, ILO/STEP. The complete outcome of these proceedings are available at www.itcilo.org/step/mutuelles

1 WAEMU Member States are: Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Niger, Mali, Senegal, Togo

Concept

ROLE OF MICROINSURANCE IN DISASTER MANAGEMENT IN INDIA

Social Security has been a strong part of Indian tradition, but the network is patchy with minimal risk coverage for most low-income groups. Insurance which was evolved as an instrument for social improvement is being now viewed as a social security tool by various stakeholders.

Worldwide a considerable portion of losses due to disasters (35%-40%) are being covered by insurance. Low-income households are the worst hit since they are mostly excluded from the conventional forms of insurance. Quite often, disasters leave the affected people with multiple worries like post-disaster illnesses (due to epidemics), mental trauma, health hazards, loss of employment and consequent loss of daily income.

Microinsurance addresses various fundamental issues of viability, affordability, moral hazard and adverse selection, but its role, and its limits with regards to social protection, shifts in the different phases of disaster management.

Pre-disaster Phase

Making aware of the insurance needs amongst the targeted section is one of the challenges. As already highlighted, the poor who are too poor to pay will rarely realise the need for paying for an intangible service like insurance, for them the need will never be felt.

Continuous education of the people by involving the local groups like NGOs, panchayats will have a positive impact. Developing proper infrastructures, both financial and physical for enabling these sections of the society to access the insurance services is another important area. Involvement of banking institutions both for collection and disbursement purposes may boost the confidence levels of the people.

Developing a suitable product with convenient premium payment modes to meet the needs of the targeted section may entice the individuals to voluntarily opt for a microinsurance product. Disaster riders, in the form of providing

an immediate relief by way of survival benefits, in products where an element of saving is involved would be a innovation to protect the daily incomes owing to disasters. Collection of weekly premiums, collection of premiums through kind (like the produce of a farm product) may be alternative modes to entice the targeted section.

Disaster Relief Phase

Proactive settlement of claims in time should be on top of the agenda during relief phase. Reaching out to the effected geographical areas for providing the claim proceeds may lift the psychological spirits of the affected section of the society. For this the active players shall synergise their efforts with those institutions (like banks, MFIs) who are already involved in these operations.

Post Disaster Relief Phase

During the post disaster phase the insurers, the role microinsurance can take

is really limited in the sense; their focus would be to ensure continuous receipt of premiums and continuous inflow of new business to maintain the solvency of micro insurance funds. On the other hand, the affected section who are really unable to make their both ends meet, may find the timely payment of premium as next to impossible. And they may seek a premium relief/premium holiday as

an interim relief, while continuing the coverage of risk (in case of individuals).

If the government can initiate measures to build up a disaster pool, the premium relief during this phase may be provided by drawing from this fund. Even compassionate measures like waiver interest have huge cost involved while providing relief during the post disaster phase.

Source: Kunnel Prem, IRDA and Hemant Bhargava, LIC India, 2006: *Role of Micro Insurance in Disaster Management - A Concept Paper*, In: *Pravartak Special Anniversary Issue on Insurance and Disaster Management (December)*.

Online article:

http://microfinancegateway.org/files/38511_file_PG_60to64.pdf

National Insurance Academy School of Management, Pune, India:

<http://www.niasom.edu.in/>

Case Study Focus

IMPACT STUDY OF THE ANIDASO MICROINSURANCE PRODUCT

The social impact study on the “Innovation for Increasing the Security on Unnerved and Needy Clients” is a follow-up of a baseline study conducted in December 2004. The primary objective of this study is to assess the impact (positive/negative) of the Anidaso microinsurance product, which has a life and an investment policy dimension, in reducing vulnerability of the low-income and poor to life-cycle risks by strengthening their risk management capacities.

The study assesses:

- Changes in risk management mechanism identified during the baseline study;
- The ability of policyholders to pay premiums regularly;
- The impact of government policies on Anidaso;
- Developments regarding the introductions of other microinsurance products by other insurance companies.

Source: Sync Consult Limited, 2006: *Impact Study. Innovation for Increasing the Security on Unnerved and Needy Clients (Insurance). ANIDASO Microinsurance Product. Care International.*

Download the full report from

<http://www.microfinancegateway.org/content/article/detail/40810>

Selected Info

Glossary

Available Solvency

Surplus of assets over liabilities, both evaluated in accordance with domestic regulation (either in accordance with rules of public accounting or with special supervisory rules) and taking into account domestic requirements as regards eligible capital element.

Eligible Capital Element

On or off-balance sheet element which, in accordance with domestic regulations, is suitable to cover the required solvency margin (i.e. eligible for inclusion in the available solvency or regulatory capital, i.e. allowable for solvency purposes).

As a general rule, these elements are either assets free of all foreseeable liabilities, or, if they represent liabilities, the latter should be subordinated to any other liabilities, i.e. in the event of a winding-up or bankruptcy, they are to be paid only after the claims of all other creditors have been satisfied.

Source: IAIS (International Association of Insurance Supervisors), *Glossary Terms, March 2006*

http://microfinancegateway.org/files/33499_file_IAIS_Glossary_update.pdf

Latest Additions to www.microinsurancefocus.org

Microinsurance Notes 4: Product Development, McCord, Michael J.; The Microinsurance Center, USAID, April 2007

http://www.microlinks.org/ev_en.php?ID=17109_201&ID2=DO_TOPIC

Microinsurance Notes 5: Weather Index Insurance, Skees, Jerry; Murphy, Anne; McCord, Michael J., USAID, April 2007

http://www.microlinks.org/ev_en.php?ID=17905_201&ID2=DO_TOPIC

Microinsurance Notes 6: Health Microinsurance, Noble, Dr. Gerry; McCord, Michael J., USAID, June 2007

http://www.microlinks.org/ev_en.php?ID=17910_201&ID2=DO_TOPIC

These are the latest papers in the series of Microinsurance Notes published on microLINKS. Ten Notes in total will provide an introduction to the main issues, including delivery channels, product development, health and life insurance, etc. The series will also include two Speakers Corners on microLINKS hosted by the authors, which will offer an opportunity to ask questions and engage in a lively discussion of the theme. <http://www.microlinks.org>

Good and Bad Practices Case Study No. 22: MAFUCECTO, Togo

Tremblay, C.; Quirion, M., Langlois, S. & Klutsé, F.; CGAP Working Group on Microinsurance, October 2006

FUCEC-Togo is an apex organisation for most savings and credit cooperatives (COOPECs) in Togo with a nation-wide coverage. This paper provides a case study on reorganisation of MAFUCEC-Togo, the FUCEC insurance mutual, and the introduction and testing of new products and procedures (now available in French and in English).

<http://www.microfinancegateway.com/content/article/detail/37288>

Microfinance Risk Programme website

AfriCap Microfinance Fund (AfriCap) Working Group on HIV & AIDS Risk Management

This website assists financial institutions to identify their exposure to health and HIV & AIDS risks, to develop strategies and to manage those risks; among others through microinsurance.

www.microfinancerisk.org

News from the Working Group

Microinsurance Conference 2007

The Microinsurance Conference 2007 will take place from 13 to 15 November 2007 in Mumbai, India. This event is the third international Microinsurance Conference and is jointly hosted by the CGAP Working Group on Microinsurance and the Munich Re Foundation with the support of the IRDA (Insurance Regulatory and Development Authority).

More than 200 experts from around the world will exchange experiences and discuss the challenges of microinsurance. They include representatives from international organisations, NGOs, development-aid agencies, commercial insurance companies and policymakers.

Following topics will be covered:

- 1) Regulation, supervision and policy issues;
- 2) Improving efficiency and enhancing benefits;
- 3) Innovative microinsurance products;
- 4) Group vs. individual products.

More information on the conference and on-line registration at

<http://www.munichre-foundation.org/StiftungsWebsite/Projects/Microinsurance/2007Microinsurance/default.htm>

The conference report of the Microinsurance Conference 2006 is now available at

http://www.munichre-foundation.org/StiftungsWebsite/Publications/MIC2006report_Publication_summary.htm

Regulation, Supervision and Policy sub-group

Together with the International Association of Insurance Supervisors (IAIS), the RSP sub-group released a joint paper entitled Issues in Regulation and Supervision of Microinsurance. The paper outlines relevant features of regulation and supervision of microinsurance and provides input for high-level expert discussion among regulators, supervisors and other stakeholders involved in the provision of insurance services for lower-income segments.

The report is available at

http://www.iaisweb.org/_temp/Issues_Paper_in_regulation_and_supervision_of_microinsurance_June_2007.pdf

More information about this sub-group at

http://microfinancegateway.org/resource_centers/insurance/_rsp_sg

Performance Indicators sub-group

The Performance Indicators Sub-group with ADA and BRS organised a second workshop on Performance Indicators for Microinsurance in July 2007. More than 20 different microinsurance providers tested the by BRS developed factsheet for the calculation of microinsurance performance indicators and gave input for the development of a handbook on how to use and interpretate them. The objective of this whole initiative is to strengthen the awareness towards performance analysis and risk management and achieve a consensus on key performance indicators for the microinsurance industry.

The handbook and the factsheet will be available end of 2007 on

www.microinsurancefocus.org

Agriculture sub-group

A bibliography of the latest publications on microinsurance and agriculture has been compiled and is available online at http://www.munichre-foundation.org/StiftungsWebsite/Projects/Microinsurance/2007Microinsurance/MIC_Agriculture_Bibliography.htm

Dissemination sub-group

The dissemination sub-group has revised the Microinsurance Focus website, which is a resource centre for information and documents related to microinsurance, but also includes news on the CGAP Working Group on Microinsurance activities. A newssection "Practitioner's Corner" was added with interviews with industry experts and practitioners.

The shortcut website address is
www.microinsurancefocus.org

Comments and suggestions can be sent to
insurance@microfinance.lu

Social Protection

GESS, a Global Platform for the Extension of Social Security

GESS (Global Extension of Social Security) is a web-based interactive platform (WEB 2) which will help to develop and implement strategies geared towards expanding access to social security. It has been developed by the ILO's Social Security department and its programme STEP, and will be launched in September 2007.

GESS will offer not only resources (methodologies, guides, software) with training and technical assistance, but also a cartography of key experiences relating to social security expansion throughout the world. It will further present and track innovations as well as links to other specialised platforms linked to this initiative (such as the GIMI platform for microinsurance). The toolbox is permanently fed and updated by GESS users who are the different stakeholders in the management of such projects.

GESS also helps to identify knowledge gaps that need to be filled in terms of research and innovations. Moreover, GESS gives the opportunity to users to create their own workspaces that follow at least two purposes: disseminate updated information on initiatives and projects of extension of social security, and facilitate the collaboration between stakeholders.

More information: www.ilo.org/gimi

More information on microinsurance news and topics, and the Working Group's activities: www.microinsurancefocus.org

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