

# MICROINSURANCE

## Improving risk management for the poor

N°14

December 2007

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

### “POLICY MATTERS” – THE ROLE OF AN ENABLING POLICY ENVIRONMENT FOR MICROINSURANCE

Microinsurance is evolving considerably in a number of countries. It is also being accepted that increasing the outreach of insurance services for low-income households in a sustainable manner by introducing value-for money products necessarily requires a conducive policy environment. This may include legal, regulatory and supervisory aspects and development policies of the government in question.

Therefore, the 3rd Annual Microinsurance Conference in November in Mumbai focused strongly on this enabling environment. To confirm the importance and crucial role of policies and regulation in the development of access to insurance, the Honourable Minister of Finance of India, Mr. Sri P. Chidambaram, and the Chairman of the Insurance Regulatory and Development Authority of India, Mr. C.S. Rao, opened the conference. Representatives from governments, supervisory authorities, donors, insurers and international standard-setting bodies, which accounted for a considerable number of the 300 participants who came from over 50 countries, discussed options for policy solutions, including regulatory innovations.

#### Conference Discussions

The conference made evident that microinsurance takes place in a changing global environment that involves

technological changes and increased levels of funding from investors, donors and philanthropists. While some emerging market countries are growing rapidly and their low-income segments provide a huge market potential the situation in some very poor countries remains static. Managing such contrasts therefore requires entirely different approaches by investors and promoters. However, in all these cases, knowledgeable policy-makers are required to play a role in facilitating microinsurance with a well-tailored set of policy tools. In other words, there is a need to respond to the growing microinsurance market in order to safeguard provision of insurance products for the poor.

The first plenary session dealt exclusively with regulation, supervision and policy issues and was moderated by Craig Thorburn from the World Bank. Brigitte Klein (German Technical Cooperation, GTZ) in her introductory presentation stated that policy matters because it lays the grounds not only for making insurance services sound and sustainable, but also for increasing outreach besides ensuring customer protection. Furthermore, the exposé pointed out possible areas of intervention for governments. Examples of major policy tools include direct service provision by government, rule setting and enforcement including a regulatory

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framework for microinsurance, providing incentives such as fiscal incentives and tax deductions or financing public goods such as research centres or risk databases. As governments increasingly focus on market-led insurance provision, a combination of various policy tools, which can be integrated into a financial access policy, can set the framework conditions for the development of a microinsurance market.

Arup Chatterjee from the International Association of Insurance Supervisors (IAIS) presented an outline of the “Issues Paper on Microinsurance Regulation and Supervision” developed jointly by the supervisors and CGAP Working Group members. This paper provides an overview on microinsurance, highlights how supervisors can deal with regulatory barriers and how they can introduce new rules and regulations to facilitate microinsurance.

It also assesses the IAIS's internationally recognized "Insurance Core Principles" applicability for microinsurance. Whilst these traditional insurance principles are equally valid for microinsurance, adaptations might be required in implementing them, e.g. in terms of transparency towards the market, delivery channels or prevention of fraud. In a nut-shell, regulations need to be proportionate to the risk and address the needs of low-income people. A next step the IAIS is planning to undertake jointly with the CGAP-WG Sub-group Regulation, Supervision and Policy Issues is the development of globally accepted Principles for Microinsurance Regulation and Supervision.

There was general consensus that the regulation and supervision of microinsurance is one of the most powerful policy tools. Regulations can facilitate the introduction and recognition of non-traditional delivery channels, the inclusion of players from outside the formal insurance system; motivate the establishment of new licensed insurers and the improvement of market conduct regulation in terms of policies, claims or consumer recourse. Roberto Junguito from FASECOLDA, the Colombian Association of Insurers, pointed to the importance of the role of the insurance providers in this setting. He stressed no matter how important regulatory adaptations may be they can hardly create significant improvements in microinsurance provision on a stand alone basis.

Michel Flamée, Chair of the Executive Committee of the IAIS emphasised that the same rules and regulations should apply to microinsurance as are applicable for conventional insurance. However, regulatory incentives can play an important

role in motivating the industry to become engaged in microinsurance while ensuring that policyholders receive products and services with real value.

The various events on regulation, supervision and policy issues during this three-day conference included an assessment of country approaches from different governments. Some countries have started to promote microinsurance based on a financial access agenda introducing a set of policy reforms whilst others started to work solely on the regulatory side for microinsurance. For example, India has introduced the first regulations for facilitating distribution of microinsurance as a supplementary to its regulation on rural and social sector obligations. Brazil has opted for a combination of product development, stakeholder dialogue, tax abolishment and ombudsman; the Philippines have introduced a specialized type of institution - the Microinsurance Mutual Benefit Association; and Mexico, Bangladesh, Nepal, Cambodia and South Africa are working on the framing of new microinsurance regulations.

Conference participants agreed that, while conducive policies are one side of the coin, the other side is the proactive behaviour of the insurers towards including poor client groups. Because regulations often follow industry practice, the importance of dialogue with and motivation from existing insurers outside of the formal insurance system such as community-based insurers, or the commercial insurers, cannot be ignored. In this regard the commitment and know-how of authorities' – i.e. policy-makers and regulators and supervisors - in facilitating the development of microinsurance is indeed very crucial.

## Conclusions

To sum up, the crucial aspects for an enabling environment are as follows:

- A clear political mandate to the regulator/supervisor to develop microinsurance;
- Conducive regulations to facilitate the mainstreaming of microinsurance, i.e. the up-grading of microinsurers outside of the realm of the insurance supervisor as well as the down-scaling of insurers not familiar with this segment;
- Coherence with policies from other sectors such as social protection, labor, agriculture or climate change;
- Fiscal incentives such as financial services tax relief;
- A sound overall legal and economic environment with well-organized contract enforcement, low inflation and removal of strict restrictions to foreign investments.

For the implementation of a financial access agenda, considerable financial and human resources are required at the policy level including the regulatory adaptations and supervisors' capacities. Cooperation across borders of different jurisdictions involved in the same struggle, tailor-made technical assistance at national level and enhanced capacity development for authorities at global and regional level will contribute to equip policymakers, regulators and supervisors for this important task and make the policy environment ready for market-led and massive microinsurance provision.

*Source: Martina Wiedmaier-Pfister, Consultant for GTZ and Bundesministerium für Wirtschaftliche Zusammenarbeit/BMZ Sector Project Financial Systems Development and member of the CGAP WG on Microinsurance - RSP Sub-group*

## Concept

### A JOINT PROCESS OF CAPACITY DEVELOPMENT

Microinsurance as a financial service and social protection mechanism by now has gained significant importance within development cooperation. The extension of microinsurance posed major challenges to professional operations: In contrast to other financial services, such as savings and credit instruments, microinsurance requires conversance with specific insurance instruments like underwriting and pricing of products, or efficient

claims management, to name a few. If MFIs or NGOs partner with regulated insurance providers, the latter provide the expertise for product development. The augmentation of microinsurance, however, requires additional competence for marketing, managing effective operations and reducing administrative costs.

The CGAP Working Group on Microinsurance regarded capacity

development as a central concern since its inception as hardly any material was available in this new field. Recently, development organisations and donors have developed some training materials and advisory services. Despite or just on account of these various attempts, the need for a more systematic coordination emerged. A harmonization of these divergent training materials could allow for a common standard of high-quality

training. Furthermore, material already deployed in the field of microfinance, social health or community-based insurance by organisations also involved in microinsurance, could serve as an important source of information and experience for capacity development in this respect.

For example, the Performance Indicators and Capacity Building sub-groups joined hands in this capacity building process: Together they will produce microinsurance training materials and courses including TOT for (training) institutions.

Concurrently GTZ, in collaboration with members from the CGAP Working Group on Microinsurance and practitioners, will embark on a joint process of revising its existing tools for microinsurance.

These materials address costing, effective management, and monitoring & evaluation.

## SimIns

SimIns is a health insurance simulation software that analyses the basic financial mechanisms of health insurance schemes and contributes to financial planning in health insurance over the medium term. The costing tool works by varying key variables in health insurance – coverage, incomes, contributions, co-payments by other institutions (ministries or other), health care costs and utilisation rates – according to different population groups and health service categories.

The tool can support the development of new health insurance schemes, including the search for the adequate policy and financing options. On the basis of contribution rates, utilisation rates and

health care costs, it determines the right financial equilibrium for the insurance scheme. Furthermore, it also takes into account the impact of other services funded by other sources, for example additional health services or simply, additional sources of financing, such as cross-subsidies by the state or others.

## CHIC

CHIC is based on the idea that not every local health insurance scheme can, or needs to develop the financial, technical and managerial capacity of a fully-fledged insurance company. The necessary know-how to carry on insurance-business can also be made available by a higher-level institution known as Centre for Health Insurance Competence. It can assist its associated microinsurance schemes by taking charge of tasks such as management and technical support, developing insurance products and quality standards, carrying out seminars and training events for managers and key staff on entrepreneurial, risk and financial management and transaction costs. Latter is called the CHIC-microinsurance-management seminar, a separate trainings module for community based health insurance. In addition, as an intermediary structure between local and central government structures, CHIC may also provide a platform for representing the interests of local initiatives on the political level.

## Info Sure

Info Sure is a software-based method that allows investigating and evaluating health insurance systems in developing and emerging countries. On the basis of a structured data collection method

it facilitates the analysis and evaluation as well as the comparison of different schemes. Including a three-part questionnaire (free-form questionnaire/coded, multiple choice questionnaire/section for collecting statistical data on insurance schemes), it covers different aspects, such as coverage, financing, scope of services, regulation, administration, articulation with other actors and social protection mechanisms, etc.

As such, the tool supports the planning process of new schemes and helps evaluating and monitoring existing ones. It identifies whether products offered are appropriate and effective; as an evaluation tool it supports decision making processes. The software also makes it possible to compare different schemes, which makes it an important tool of knowledge transfer between schemes, products and delivery channels.

The GTZ experience with these tools might provide a conceptual and technical contribution to the debate on quality standards and capacity development. Furthermore, the process implies an important learning effect for our work in general: Even if organisations have their own materials, it can be discussed, adjusted (if needed) according to the experiences and guidelines of the CGAP Working Group on Microinsurance. This way, we do not need to re-invent the wheel again and again.

*Source: Barbara Rohregger, GTZ, Sector Initiative on Social Protection and Gaby Ramm, consultant to GTZ and focal point of the sub-group Capacity Building.*

If you want to know more about the tools: [www.gtz.de/socialprotection.de](http://www.gtz.de/socialprotection.de)

## Case Study Focus

### THE EXPERIENCE OF ZURICH BOLIVIA

Zurich Bolivia began its microinsurance operations with BancoSol at the end of 1999 with a credit insurance product. However, with time Zurich realised that covering only the risk of credit loss was not enough. Should the main household provider have an accident, the resulting loss of revenue affects the whole family. The objective of providing more insurance products was to break the vicious circle of poverty and to offer economic security to the policyholders.

Due to the low social security coverage, which reaches only 20% of the population, coupled with a high level of informal economy, a large number of people in Bolivia do not have access to the benefit given by health services. Furthermore, public health services have many serious shortcomings.

The life, health and personal accident microinsurance products, commercialised by Zurich Bolivia, include a first monthly instalment starting from USD 0.99, and

offer following coverages: Death caused by any given reason (natural, illness or accident), burial expenses, additional benefits for children and companion, additional health coverage for the policy holder and associated employees. The product was introduced in 2003 and delivered through strategic alliances with financial companies.

The strategic alliance with BancoSol started a success story with these microinsurance products being voluntary

and not being linked to credits. The microinsurance products are promoted with BancoSol's clients, who then decide if they want to acquire this new financial service or not.

A survey revealed that more than 98% of the clients currently insured did not have any previous experience with insurance and did not know what insurance could cover. This new initiative thus contributed to the creation of a new insurance "culture" in this market segment.

A study entitled «Microinsurance Services for the Clients of Microfinance Institutions

(MFIs)», carried out by Centro Afin in 2004, shows that microfinance clients have a strong interest in microinsurance, especially for health insurance (75,3% of all interviewed people). That represented more than 480,000 people, that would be interested in buying an insurance.

In October 2007, "Zurich Boliviana Personales S.A." signed 14,046 policies for their life, health and personal accident microinsurance products, reaching 3% of the potential market. This is a raise of 13,4% from last year.

Aiming to raise the coverage of low income households, Zurich Bolivia is continuing to work with new strategic alliances with the purpose of increasing the commercialization of microinsurance.

Source: Hugo de Grandchant, Zurich Boliviana Seguros Personales S.A.

## Selected Info

### Glossary

#### Social Protection

A generic term covering all guarantees against reduction or loss of income in cases of illness, old age, unemployment or other hardship, and including family and ethnic solidarity, collective or individual savings, private insurance, social insurance, mutual benefit societies, social security, etc. (Excerpt from ILO Thesaurus, Geneva, 1991.)

#### Social Security

The protection which society provides for its members, against the economic and social distress that otherwise would be caused by the stoppage or substantial reduction of earnings resulting from sickness, maternity, employment injury and occupational diseases, unemployment, invalidity, old age and death. To this must be added the provision of medical care and the provision of subsidies for families with children. Such protection may be provided by different mechanisms: statutory social insurance schemes, universal benefits and services financed from the general budget, social assistance, insurance schemes and micro-insurance schemes. (Adapted from Social security: A new consensus, Geneva, ILO, 2001).

Source: GIMI [http://www.ilo.org/gimi/ShowGlossary.do?GLOSSAIRE\\_LETTRE=s&GLOSSAIRE\\_LANG=EN](http://www.ilo.org/gimi/ShowGlossary.do?GLOSSAIRE_LETTRE=s&GLOSSAIRE_LANG=EN)

### Some Additions to [www.microinsurancefocus.org](http://www.microinsurancefocus.org)

Based on Protecting the Poor: A Microinsurance Compendium, the CGAP Working Group on Microinsurance is producing twelve notes called **Microinsurance in Focus**. The notes will deal with key issues facing the microinsurance industry today from marketing to providing real value to the poor. These notes will be available to download or in html on [http://microfinancegateway.org/resource\\_centers/insurance/focus\\_notes](http://microfinancegateway.org/resource_centers/insurance/focus_notes)

Courtesy of David Dror, Microinsurance Academy and the Social Science Research Network, links to seven **research papers on health insurance and benefits to low-income households** have been added under the Health Insurance category at [http://microfinancegateway.org/resource\\_centers/insurance/products#2](http://microfinancegateway.org/resource_centers/insurance/products#2)

Read a special focus on **microinsurance in France** [http://microfinancegateway.org/resource\\_centers/insurance/article/32196](http://microfinancegateway.org/resource_centers/insurance/article/32196)

Visit the [www.microinsurancefocus.org](http://www.microinsurancefocus.org) frequently for the latest news in microinsurance and regular updates!

## News from the Working Group

### *Operation Sub-group*

The CGAP Working Group on Microinsurance announced a new partnership between the International Labour Organization (ILO) and the Bill & Melinda Gates Foundation to develop or improve insurance products to promote decent work for tens of millions of low-income people in the developing world. The US\$34 million Gates Foundation grant will help create the **Microinsurance Innovation Facility**, a five-year initiative that will provide grants and technical assistance to support the development of valuable insurance products for low-income and rural households; encourage the emergence of institutional models and partnerships that effectively deliver insurance to large volumes of low-income women and men; and promote market education to help low-income consumers appreciate the utility of insurance and identify high value products.

This facility builds on the successful efforts of the CGAP Working Group to document the experiences of microinsurance operations around the world. Funded by DFID, GTZ, ILO and SIDA, this **Good and Bad Practices** project conducted a series of case studies of insurance companies, microfinance institutions (MFIs) and community-based schemes that provide life and health insurance to the poor.

To achieve its ambitious targets, the ILO is hiring. The job descriptions can be found on [www.ilo.org/socialfinance](http://www.ilo.org/socialfinance) (Deadline: 8 February 2008)

### *Performance Indicators Sub-group*

A draft **handbook on performance indicators in micro-insurance** with an interactive **factsheet** is being prepared. The key indicators developed are based on a broad consensus of practitioners following a second workshop hosted by ADA, BRS and the Performance Indicators Sub-Group. Once the draft handbook is published (planned for April 2008) a series of workshops will be held in Asia, Africa and Latin America with the view of finalizing the training materials.

### *Health Sub-group*

During the Mumbai Microinsurance conference in November 2007, the health sub-group was officially relaunched. The sub-group members will early January identify and choose **key activities to be undertaken in 2008**. A dedicated online working space will also be prepared in order to share documents, co-produce content, discuss, keep in touch, communicate, etc.

### *Technology Sub-group*

A new Technology Sub-Group has just been set up with a mandate to identify and promote various **leverages of technologies** for a larger outreach of transparent and inclusive microinsurance services. The group is still in the process of defining its deliverables and anyone willing to contribute in this domain is welcome to join the discussions on Google group place <http://groups.google.com/group/MIWG-Techno>

## **Impact Sub-group**

In response to the need to obtain a better understanding of the **impact of microinsurance** on «the ground», an Impact Sub-group was initiated following the Microinsurance Conference in Mumbai in November 2007. The group aims to find an understanding of impact and how it can be assessed, and aims to promote the creation of evidence.

## **Demand Sub-group**

After completing its primary objectives, including publishing demand research guidelines (published by USAID in 2006), the Demand Sub-Group proposed that they be **incorporated into the Operations Sub-Group**, which would enable them to focus on market research for the purposes of product development.

## **Dissemination Sub-group**

The third **International Microinsurance Conference** took place from 13 to 15 November 2007 in Mumbai, India. Around 300 experts from over 50 countries exchanged experiences and discussed the challenges of microinsurance. The press release and presentations are available to download from [www.microinsuranceconference2007.org](http://www.microinsuranceconference2007.org)

The next conference has already been confirmed and will be held from 5 to 7 November 2008 in Cartagena, Colombia. For more information, go to [www.microinsuranceconference2008.org](http://www.microinsuranceconference2008.org)

## **Capacity Building Sub-group**

The Capacity Building sub-group established linkages to the Performance Indicators sub-group for developing microinsurance training courses and materials. The intention is to design sequenced training starting with a general microinsurance introduction, funded by GTZ, with an annotated reading list and a **brief guide on how to prepare a microinsurance business plan**.

The handbook and fact sheet on microinsurance performance indicators developed by ADA, BRS and the Performance Indicator sub-group will build the basis for training modules and materials, and a **Training of Trainers** component, a project funded by ADA, BRS and GTZ. Furthermore, an annual training schedule on regular training courses will be created for the WG website.

More information on the Working Group activities, microinsurance news and documents on [www.microinsurancefocus.org](http://www.microinsurancefocus.org)