



Newsletter - The Microinsurance Trilogy

SPRING 2011

The focus of this spring edition of the Microinsurance Trilogy is Public Private Partnership (PPP) in microinsurance. The main article examines the outcomes and discussion points of a three day discussion that took place on LinkedIn and was facilitated by Gaby Ramm, who authored the below article.

The following article provides a small insight into the paper "Commercial Insurers in Microinsurance", which was commissioned by the Microinsurance Network. This paper examines the role commercial insurers' play in microinsurance in order to understand their objectives and motivations.

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PUBLIC PRIVATE PARTNERSHIP: ROLE OF GOVERNMENT, SUCCESS FACTORS AND GAPS

The first Microinsurance Debate on Public Private Partnership (PPP) focused on a number of specific questions that was put to the community throughout a three day period. This article aims to describe selected issues of the discussion and illustrate where the challenges of initiating, developing and managing a PPP lie. A more comprehensive and detailed paper including additional PPP examples will be downloadable on the Network website.

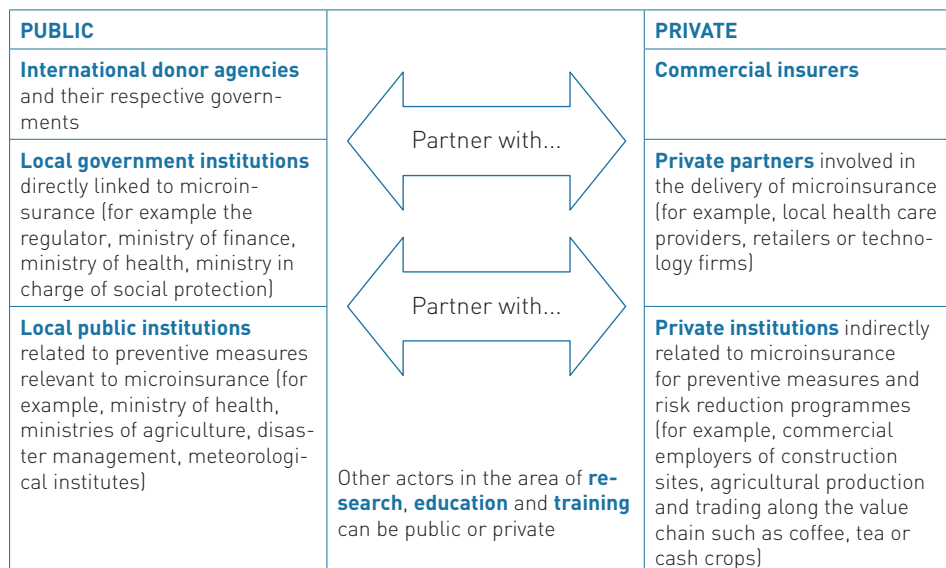
The discussion, which had over seventy comments, included participants from across the microinsurance sector with a high proportion coming from the private sector.

There are several different types of Public Private Partnerships in microinsurance but two variants are prominent. The first

of which involves donors cooperating with either a commercial insurer or some other kind of private entity such as a local health care provider or technology firm. The second PPP that is common is a local government institution partnering again with either a commercial insurer or private entity.

One of the most important components of any PPP is having a local 'anchor'. It is not important whether this anchor comes from the public or private side of the collaboration but it is crucial for sustaining any initiated change.

WHO ARE THE STAKEHOLDERS IN PPP?



WHAT IS THE ROLE OF GOVERNMENTS?

The participants identified four roles that governments should adopt in order to support the development of PPP. Governments need to:

- Provide **appropriate framework conditions** that will in turn enable the private sector (most notably the insurance companies) to focus their efforts on providing insurance to the low-income market.
- Take **responsibility of social protection**. This will often take the form of social assistance within the framework of programmes such as cash transfers, health vouchers, etc. Social assistance should not distort the market as these tools are for assisting the poorest segment of the population who cannot afford insurance in the first place.

Information in this article is based on an online discussion organised by the Microinsurance Network. It does not indicate quotes of individual participants, but all those who participated are recognised in the source.

- **Invest in infrastructure** such as improving health care services and taking preventive measures to reduce the impact of the shock. These improvements of services should in turn reduce the price of premiums.
- Take a more active role in **capacity building**. While it is usually funded by donor agencies, governments have a responsibility towards their population. It is important to take into account that this kind of government intervention can be politically delicate as it may interfere in the autonomy of implementing technical assistance providers.

Regardless of what efforts governments make, the private industry voiced concerns during the discussion about the lack of government transparency, information asymmetry, corruption and trust. On the other hand, the private sector may have its own motives for entering the market and could try to influence policy decisions without revealing their full intentions.

In general, the participants agreed on the fact that without appropriate government support, infrastructure and investment, it can be difficult for microinsurance to develop. The importance of the government decision making process was raised and while the private industry voiced their belief that they should not directly interfere with regulatory issues, there should be a window of dialog between the two sides. This is particularly true with regard to innovative products that may need regulatory approval.

ARE GOVERNMENT SUBSIDIES GOOD OR BAD?

Several participants raised the issue about whether the public sector should or could compensate private insurance companies for the added risks they face by entering the microinsurance market. If so, what kind of support would be suitable? Are subsidies the right instrument to show the commitment of the government? And, would those compensations or incentives be an important factor for the private industry to move into PPP?

Two examples were identified where government subsidies could have a positive effect on the strengthening of microinsurance operations:

- One-time subsidies to help the private industry create or develop the market by **co-financing the start-up-costs** and thereby reducing the investment risk of the insurance providers.
- In exceptional cases, such as agriculture and agro business, it could make sense to subsidise the premium. These types of subsidies should be seen in the broader context of **disaster management** –rather than the classic premium subsidy.

THE COLOMBIAN CASE

The Colombian government provides subsidies for the very poor as social assistance but also temporary premium subsidies as a necessary strategy of penetration. Subsidies need to last for as long as the population understands the product and its benefits - leaving the government with the problem of offering a subsidy short enough to avoid negative incentives in the market, but long enough to create awareness among the low-income population.

Although the Colombian practise contributes to scaling up of microinsurance products, the disadvantages of subsidies is the dependency on political decisions, which may or may not be long lasting. Premium subsidy and sustainability may be a contradiction. Furthermore, an insurance product that is subject to premium subsidy carries a number of significant risks for the commercial insurance industry, most notable of which is a reputation risk if excessive profits are made.

The Colombian case is of great importance as the outcome could play a vital role in other governments' future strategies. It will be necessary to analyse the outcomes and document the ways in which subsidies are implemented in order to extract the lessons.

In conclusion, there was a broad consensus during the discussion that governments need to keep their roles separate. On the one hand, governments need to fulfil their traditional mandate as political decision makers and on the other hand, government institutions need to act as partners in PPP.

WHAT MAKES A PPP SUCCESSFUL?

The introduction of microinsurance PPP can be affected by many different factors, some of which facilitate the process while others prove to be obstacles. Both kinds can occur within the PPP collaboration itself as well as in areas beyond the partnership's immediate influence.

The participants discussed a number of factors that can minimise the obstacles and help PPP to evolve in a successful manner. The following factors are by no means exhaustive:

- **Courage and transparency:** While transparency is in the interest of the public, it can create a "high risk / low reward" situation for those implementing challenging projects. From a business and personal point of view there are significant dangers when implementing such projects as many experience initial setbacks. A considerable amount of courage is needed on the part of the staff and management to stick by them. Transparency plays a vital role in being able to learn from others and share the lessons learnt.
- **Involvement of top management and the board:** Top-level support is essential when implementing innovations, especially those that might entail potential risks and

require deviating from the usual procedures. Structured dialogue between management and implementing units has proved to be of great success as it provides timely feedback for corrective action or suggestions for efficient and effective delivery. See example below.

- **Ownership of all stakeholders:** In order to maximise ownership, a more bottom-up approach should be encouraged to ensure the involvement of all the relevant stakeholders. This across the board involvement will reduce the risk of goal deviation and facilitate the channels of dialogue, which are essential to the success of PPP.
- **Independent organisational structures for implementing PPP:** Independent agencies, such as the 'Co-operative Company of Collective Interest' (SCIC) in France, give private and public stakeholders a framework for managing PPP, which in turn will increase transparency, trust and control. With regard to the risk of information asymmetry, these agencies are more likely to identify and correct them. This structure should provide PPP stakeholders with enough institutional flexibility to give them the freedom to work within their individual mandate while also serve the common interest.

In conclusion, the most important factor is the smooth cooperation between the different partners and a common understanding of the objectives, roles and responsibilities. Communication and ownership are key.

ENTERING THE MARKET IN INDONESIA

When Allianz-GIZ first introduced microinsurance in Indonesia, the CEO of the insurance company assigned the responsibility to a committed staff member who reported directly to him and kept him updated. Hence, even unusual processes such as separate monitoring of all administrative costs related to microinsurance was agreed upon by the CEO. After one year the review process provided evidence that the calculated administrative costs within the company were much lower than assumed at the beginning and the product could be revised for the benefit of the clients and the delivery channel. This illustrates exactly how dialogue between management and those on the ground can have a direct effect on the clients.

WHERE ARE THE GAPS?

Even though there are an increasing number of partnerships being formed, there is still a need for new multi-stakeholder PPP that go beyond (simple) product design and operations:

- **Consumer protection and grievance mechanisms** introduced by the insurance industry are of great importance but are often subject to criticism. A way of increasing reliability and integrity is to have grievance mechanisms managed by a third party comprising of various stakeholders. PPP can play an important role in establishing such systems.
- Whilst PPP have become common in the direct provision of microinsurance, their use in **enhancing microinsurance capacity** has been neglected. There are very few examples where private organisations have partnered with research institutions to further understanding. One example of this sort of collaboration is between Zurich Financial Services and the Nan Kai University's Department of Risk Management and Insurance, who work together to jointly assess products and distribution platforms.
- There is a need for innovative products that include **preventive measures**, especially against catastrophic risks at all levels (macro, meso, micro). Several examples were given during the debate but not all qualified as being microinsurance. Even so, they would help in building sound risk management practices.

- The possibilities of **risk transfer in health mitigation and services** for the very poor from the government to the private sector need to be further developed. There is a necessity to draw the expertise from both the private and public sectors in an effort to improve services and access to health.

CONCLUSIONS

PPP facilitates broader change – the systemic approach: PPP that strive for more complex changes along the value chain need local multi-stakeholders partnerships who represent the 'stepping stones' for development beyond donor intervention. Usually these partnerships require long-term intervention at multiple levels and therefore need a systemic approach. Ideally, these complex strategies should already be considered when a PPP is being planned.

Extending PPP to all relevant areas along the value chain: While there have been many PPP innovations in product development and health care provision, other areas have yet to be tackled using partnerships. High demand exists in areas such as research, capacity building and dialogue programmes.

Effective and efficient ways to manage PPP: Public and private partners are different breeds as they each have their own interests, goals and procedures. In order to ensure the needed common understanding, transparency and trust, it might prove useful to establish a separate independent unit for PPP management.

Documentation of good practices: Little analysis is available on the complexity of PPP. Documenting existing experiences in order to develop a knowledge base that contributes to good practices would help to stimulate the formation of more PPP and prevent the replication of avoidable mistakes.

Donor agencies can play an important role in initiating new approaches and experimentation to create a market. However, a local anchor is crucial to the success of such an initiative as they can provide the essential local knowledge.

Appropriate use of subsidies: This topic, which is not only related to PPP, often brings up controversies and needs to be further discussed and experimented. Careful monitoring and research of the effects of different types of subsidies is needed in order to deepen our understanding.

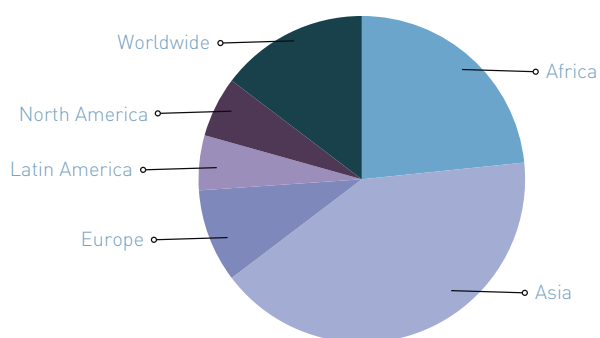
Source:

Gaby Ramm, consultant and facilitator of the Microinsurance Network's Capacity Building Working Group. The Network would like to thank Gaby and all those who participated in the discussion and made this article possible.

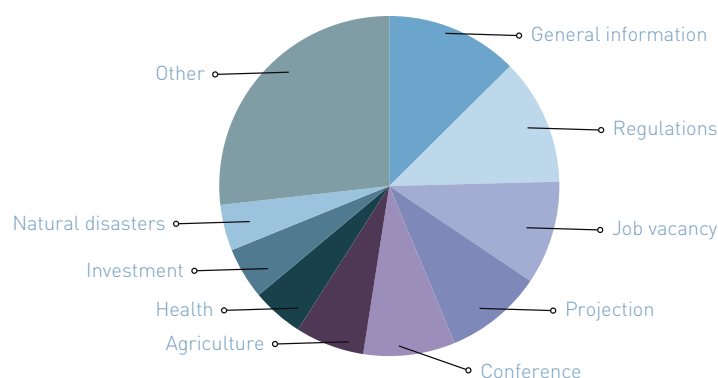
MICROINSURANCE IN THE NEWS 2010

The news section of the Microinsurance Network's website brings together all the significant news articles and developments in microinsurance. The total number of news items posted in 2010 was 184 (please note that these are articles written in English mainly):

NUMBER OF NEWS ITEMS BY REGION



NUMBER OF NEWS ITEMS BY TOPIC



COMMERCIAL INSURERS IN MICROINSURANCE

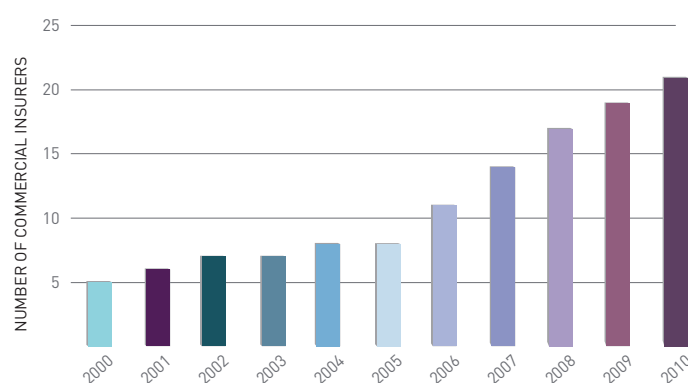
The Microinsurance Network has conducted a study on the involvement of commercial insurance companies in microinsurance as part of its effort to share lessons learnt and promote good practices. Commercial insurance companies are an important stakeholder in microinsurance and therefore, it is crucial to understand their motivations and objectives for involvement.

The authors, Marie-Amadine Coydon and Véronique Molitor, asked the top 50 insurance companies from the Forbes "The Global 2000 – Insurance" (April 2010) and an additional five local insurance companies that are important players in the microinsurance sector about their experience in microinsurance

The 24 companies that participated in this study covered more than 27 million lives in 2010 through different microinsurance products. The main reasons why private insurance companies decide to enter the microinsurance market are to access new markets and brand recognition, despite the different challenges they encounter: High client acquisition costs, little insurance awareness and lack of demand, inadequate distribution networks and lack of data.

The study will be published summer 2011.

WHEN DID THE PARTICIPANTS START GETTING INVOLVED?



Source:
Marie-Amadine Coydon and Véronique Molitor; Commercial Insurers in Microinsurance. Microinsurance Network, 2011 (to be published)

NETWORK NEWS

7TH INTERNATIONAL MICROINSURANCE CONFERENCE - CALL FOR PROPOSALS

The 2011 conference will take place from 8-10 November, 2011 in Rio de Janeiro, Brazil and will be hosted by the Munich Re Foundation and the Microinsurance Network with the support of CnSeg, GIZ/BMZ and Georgia State University's Center for the Economic Analysis of Risk (CEAR). The organisers have launched the call for presentation proposals on the following themes:

1. Scientific track – Economic analysis of microinsurance markets
2. Case studies of innovative and viable client-centred microinsurance solutions
3. Thematic issues: National and regional strategies to develop microinsurance; Distribution and demand; Technology to achieve scale and efficiency; Protecting the poor against natural disasters.

Deadline for submission: 31 May 2011

For more details visit: www.microinsuranceconference.org/2011

MICROINSURANCE NETWORK JUNE MEMBER MEETING 2011

The Microinsurance Network's Member Meeting will take place in Königstein, Germany towards the end of June. This meeting, which is for members of the Network only, focuses on tackling the current challenges in microinsurance. Members have the opportunity to shape the agenda, focus on topics that are of importance to them and when necessary initiate projects with the backing of the whole Network.

For details on how to be a member visit: www.microinsurancenetwerk.org/become-member.php

WWW.MICROINSURANCENETWORK.ORG

The Microinsurance Network is continually working to keep the website up to date and has recently focused on three areas. The **More Resources** pages have been updated in English, French and Spanish and they now include language specific information on microinsurance websites, newsletters, events, videos, jobs and trainings. The **Frequently Asked Questions** (FAQ) section is now available in French and Spanish. And finally, the **Lexicon** has also been updated with more recent definitions.

The Microinsurance Network newsletter is published three times per year. The Microinsurance Network is a member-based network and its mission is to promote the development and proliferation of good-value insurance products for low income persons by providing a platform for information sharing and stakeholder coordination with the aim of creating public goods.

To subscribe to this publication in English, French or Spanish, send an email to info@microinsurancenetwerk.org
To view all the back issues and other Microinsurance Network publications, visit its website at www.microinsurancenetwerk.org

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