



# Lessons Learned and Recommendations for Donors Supporting Microinsurance

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For more information, visit [www.microinsurancefocus.org](http://www.microinsurancefocus.org) or contact [insurance@microfinance.lu](mailto:insurance@microfinance.lu)

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## Executive Summary

Microinsurance is the provision of insurance services to low-income people, who typically do not have access to insurance or to adequate social security services. Microinsurance is receiving increasing attention from donors as an effective strategy for helping the poor to cope with risks, reduce vulnerability, and build their asset base. This Note offers operational guidelines for donors as they construct a road map for entering or for getting more deeply involved in the sector. It recognizes that donors have different approaches in working with the sector—some more hands-on than others—and thus, it offers a broad framework that can be applied as needed. Donors include bi-lateral and multi-lateral agencies, regional development banks, development finance institutions, social investors, and foundations.

A handful of donors have been at the forefront of microinsurance, implementing programs, documenting lessons, and developing tools for more effective donor involvement. Although donors will not necessarily be the driving force behind increasing access to insurance services, they do have an important role to play. As more donors become involved, they can contribute to generating knowledge, strengthening the capacity of various actors within the microinsurance supply chain, serving as neutral brokers and advocates, and setting a pro-poor policy agenda.

Donors need to consider the total insurance market when designing their interventions, while remaining centered on the needs of the client. This Note analyses the microinsurance market along the client, the micro, the meso, and the macro levels. The Notes examines 1) how donors have supported microinsurance to date, and 2) how they can enhance their effectiveness. It offers Lessons Learned and Recommendations.

At the **client level**, demand is still often misunderstood or simplified. Donors need to gather information about potential clients so their real needs are better understood and appropriate products developed. On the flip side, donors also need to ensure that clients are informed about the benefits of insurance.

At the **micro**, or retail provider level, the market is still underdeveloped. Donors can help by upgrading the capacity of competent providers and alternative delivery channels.

At the **meso**, or market infrastructure level, there is a scarcity of quality information and technical assistance available. Donors can assist by helping to create greater transparency in the sector and increasing access to reinsurance facilities.

At the **macro**, or policy level, microinsurance is often poorly understood. Donors should build policymakers' and regulators' capacity and advocate for inclusive markets and appropriate legal frameworks.

Finally, **effective donor support** is possible only if donors evaluate their own internal capabilities and comparative advantages before deciding whether and how to support microinsurance.

## **Core Operating Principles to Guide Donors**

### **Donors should...**

- Ensure that all microinsurance programs have good client and economic value. Good client value means the product meets client need at an affordable price. Good economic value means returning as much of the premium as possible to clients while maintaining viability and good service levels of the insurance model.
- Ensure that appropriate market research and institutional due diligence has been completed before funding a microinsurance program.
- Ensure that the organizational structure of a microinsurance provider that receives donor support is managed and monitored as an independently-viable business, or with potential to become viable, with effective operations, clear claims monitoring, and sound financial and risk management policies.
- Condition support to microinsurance providers around transparent reporting and defined benchmarks to ensure real value to clients and achieve sustainability.
- Measure the effectiveness of service provision, including marketing, distribution, and consumer recourse to ensure that clients understand the product and can make informed choices.
- Underwrite the cost of studying the impact of microinsurance on client's risk-management behavior and socio-economic status.
- Approach microinsurance with a long-term perspective, planning interventions with clear and time-bound exit strategies.
- Coordinate with other donors, policy makers, regulators and supervisors, public institutions, and the private sector to draw on comparative strengths and build an inclusive microinsurance market.

### **Donors should not...**

- Directly subsidize premiums or claims costs. This will lead to unsustainable programs and to potential backlash from consumers when the subsidy is removed. (An exception may be when subsidies are targeted for certain risks and vulnerable groups).
- Subsidize what the private sector would be willing to do on its own.
- Encourage an institution or delivery channel to take on any insurance risk that it cannot manage. Insurance is a specialized and high-risk activity.
- Engage in advocacy at the macro level unless the donor has the right technical skills, field presence, strong influencing capacity, and the trust of governments.

## Acronyms

AIG	American International Group
CAF	Andean Development Cooperation
CARD	Center for Agricultural Research and Development (Philippines)
CIDR	Centre International de Développement et de Recherche (France)
CGAP	Consultative Group to Assist the Poorest
DFID	Department for International Development (UK)
GTZ	German Technical Assistance
IAIS	International Association of Insurance Supervisors
IFC	International Finance Corporation
ILO	International Labor Organization
KfW	German Financial Cooperation
MDGs	Millennium Development Goals
MFI	Microfinance institution
MHO	Mutual health organization
MRI	Mutually Reinforcing Institutions (Philippines)
MIF	Inter-American Development Bank
NGO	Non Governmental Organization
PDA	Personal digital assistants
RIMANSI	Risk Management Solutions Limited, Inc (Philippines)
SDC	Swiss Agency for Development Cooperation
SIDA	Swedish International Development Cooperation Agency
STEP	Strategies and Tools against Social Exclusion and Poverty
UNDP	United Nations Development Programme
USAID	U.S Agency for International Development

## **1. Purpose of the Note**

This Note provides an overview of current donor approaches for supporting microinsurance, synthesizes key lessons, and offers guidance to donors that are considering launching or already implementing microinsurance programs. It offers a framework that is general enough to be applied in various contexts, recognizing the diversity in approaches that different donors take. For the purpose of this document, donors include bi-lateral and multilateral agencies, regional development banks, development finance institutions, social investors and foundations.

Donors should take a holistic market approach, remaining centered on the needs of the client. The market can be broadly organized at three levels: the micro, or retail provider level, the meso, or support infrastructure level, and the macro, or policy level. Using an analytical framework that comprises these entry-points, this Note addresses 1) how donors have supported microinsurance to date, and it offers lessons learned from these experiences; and 2) how donors can enhance the effectiveness of their support, and it makes specific recommendations.



## 2. Microinsurance: What It Is and Why It Matters To Donors

Microinsurance is the provision of insurance services to low-income people, who typically do not have access to insurance or adequate social security services. The key distinction between microinsurance and traditional insurance is the market that it seeks to reach. Microinsurance is basically managed according to insurance principles and funded by premiums.<sup>1</sup> It can cover any risk that is insurable at a reasonably affordable cost, including illness, accidental injury, death, and loss of property or crop. Coverage can be offered as a single or bundled risk product, and it can also be provided on an individual or group basis.

Microinsurance shows enormous potential as a risk-pooling mechanism to protect the poor from risks and adverse events. Without access to insurance, poor people have to draw on limited resources at hand to meet unexpected and potentially devastating losses. Through the payment of small, regular premiums, poor households can protect themselves against the uncertain prospect of financial shocks. Microinsurance, provided by formal or informal insurers, can complement the state's role in providing social protection by reaching vulnerable groups, and it can also help stimulate regulated insurers (especially commercial) to serve the low-income market.

Coverage of social protection services is dramatically low in developing countries, with national governments unable to afford or administer universal care.<sup>2</sup> Based on estimates from the ILO, no more than 20 percent of the active population in many developing countries is included in public social security systems. The situation is especially severe in sub-Saharan Africa and South Asia, where only 5 to 10 percent of the working population is covered by statutory social security—primarily old age pension and access to health care (ILO, 2001). Privately provided insurance is starting to fill this gap but there is limited data on the exact scale of penetration. The Microinsurance Center estimates that 78 million people in the 100 poorest countries have some microinsurance coverage (Roth, et al. 2007).

Donor attention and support to microinsurance is recent, but it is growing in popularity. Microinsurance is seen as an important tool to help poor communities manage their risks, reduce their vulnerability, and build their asset base, thus supporting the achievement of the Millennium Development Goals (see Box 1). While there is limited evaluative evidence of the success of microinsurance models or its impact on clients, there is accumulating practical evidence of good and bad practices that can inform future programming.<sup>3</sup> The need for donor coordination, strategic innovation, investment in public goods, research and impact

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<sup>1</sup> Based on the definition used by the IAIS-CGAP Joint Working Group, in *Issues in Regulation and Supervision of Microinsurance*, 2007.

<sup>2</sup> Social protection includes public social security schemes as well as private or non-statutory schemes—such as mutual benefit societies—that are not wholly determined by private market forces (Jacquier et al 2006).

<sup>3</sup> The CGAP Working Group on Microinsurance, with support from SIDA, DFID, GTZ and the ILO, launched a project in 2003 to document the experiences of microinsurance operations around the world and identify good and bad practices. 24 case studies were conducted, documenting the lessons of more than 40 organizations.

measurement, and sharing of best practice is both timely and critical in this emerging field. Ultimately, donors are well positioned to bridge traditional social protection with financial sector or market-driven approaches to ensure better coverage for more low-income people.

### **Box 1: Microinsurance and the Millennium Development Goals (MDGs)**

In protecting the poor from severe financial losses and building their asset base, microinsurance can directly contribute to certain MDGs established by the United Nations in 2000:

- Halve the proportion of people whose income is less than one dollar per day
- Halve the proportion of people who suffer from hunger
- Ensure that children everywhere, boys and girls, will be able to complete a full course of primary schooling
- Reduce by two-thirds the under five mortality rate
- Reduce by three-quarters the maternal mortality ratio
- Halt and begin to reverse the spread of HIV/AIDS
- Halt and begin to reverse the spread of malaria and other diseases

For example, by preventing asset depletion, microinsurance can contribute to increased household income and food security in the long term. Financing for health insurance services can be critical to increase access to basic maternal and child health care (thereby reducing maternal and child mortality) as well in making available prevention and treatment services to combat diseases such as HIV/AIDS and malaria.

(Adapted from Churchill, 2006)

To date, major contributors in this field include International Labor Organization (ILO), the Department for International Development (DFID), the German Development Cooperation (GTZ), American International Group (AIG), the Swedish International Development Cooperation Agency (SIDA), the Ford Foundation, the World Bank, CGAP, Opportunity International, the Bill and Melinda Gates Foundation and Asian Development Bank, among others. According to a survey by the Microinsurance Center, there were nearly 160 donor-funded projects in place between 2003 and 2006 (Roth et al. 2007). This study estimates that the total donor contribution to the sector was just above US\$10 million over the three years. Given that most donors do not publicly distinguish microinsurance from other portfolios, this probably does not capture all donor-supported programs. Overall, donor involvement and thinking about this sector is still at an early stage.

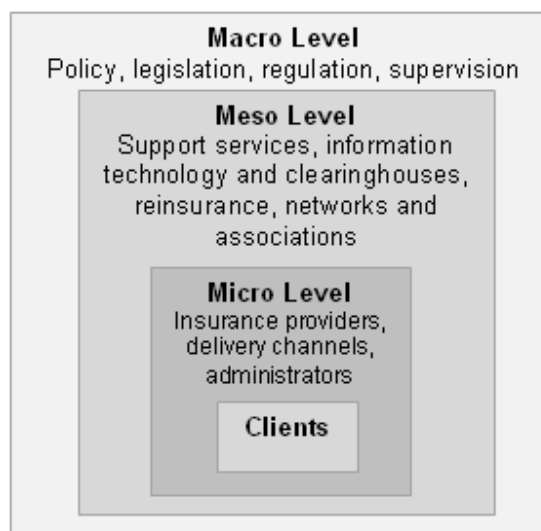
### 3. Lessons Learned and Recommendations

This Note discusses the key lessons learned and recommendations in microinsurance within a framework that rests on four entry points:

- Client demand,
- Micro level (retail provider level),
- Meso level (market infrastructure level), and
- Macro level (policy level).

While these entry points are discussed separately, they are interrelated and dynamic, and should not be viewed in isolation (see Figure 1).

**Figure 1: Four Entry Points of the Microinsurance Market**



#### 3.1. Responding to Client Demand

Client demand for insurance is at the crux of whether or not to support microinsurance programs. Yet limited market research and actuarial data is available to accurately assess demand and design products that are feasible, valuable, and affordable to low-income consumers. Demand is often misunderstood or simplified by implementers, and this misunderstanding has resulted in products and services that do not meet the true needs of the client. On the flip side, demand for insurance may be latent among consumers. Potential clients often have a limited understanding of insurance products with their benefits and pitfalls, or they have a cultural aversion to being insured. Others may have had negative experiences with insurance or be suspicious of the profit motive that drives many commercial insurers. Proactive awareness-raising on the benefits and pitfalls of insurance is therefore key to building trust and generating demand.

## **Lessons Learned**

### **Limited understanding about insurance is a significant barrier to the growth of the industry.**

Potential clients are often skeptical about insurance, and they are reluctant to pay in advance for services they may not receive. Often, poor households are uncomfortable with the idea of pooling resources outside the familiarity of their community (Garand and Wipf 2006). For consumers who have experience with insurance, the limited scope of coverage and high costs associated with processing claims are common factors that reduce their confidence in insurance as a risk management tool (Cohen and Sebstad, 2006; Roth et al, 2007).

Client demand for insurance products is often assumed, misunderstood, or oversimplified. Demand for insurance has often been a function of what is available in the market, rather than what clients truly “need” (Wohlner, 2007). Demand research has revealed the need among low-income clients to find more effective ways to cope with risks, even though clients rarely see insurance *per se* as a way to bridge this gap. Existing market studies and surveys offer a base for insurers to estimate client demand and design appropriate products. However, since client need is specific to location and based in a given point in time, generalizing across countries and regions when considering the attributes of insurance products may be inappropriate.

Likewise, the appropriateness of insurance products currently available to low-income consumers is questionable. While commercial insurers are increasingly entering the market, they typically “downscale” their existing products rather than develop new, responsive products for the sector. Products offered by commercial insurers are usually limited to life insurance and accidental death and disability as these are less risky and more likely to be profitable. Such products do not provide real value to the poor when they do not meet their actual needs, or when the premiums are overpriced and claims levels are too low (Wohlner, 2007). Efforts are underway to develop innovative products tailored to the needs of the poor, for example, by the Micro Insurance Agency and ParaLife (see Boxes 5 and 6 respectively), but these require considerable investments.

Without access to demand research and pricing information, commercial insurers cannot design appropriate products, and they are likely to inflate their prices as a buffer.

## **Recommendations for Donors**

**Support market research to better understand and respond to client needs.** Donors can invest in market research and tools that reveal the priority needs of clients (see Box 2). Information on client needs and preferences can then help identify suitable business models to respond to demand effectively and to design products appropriately. Examples of market surveys include the FinScope household survey of financial services in South Africa developed by FinMark Trust with support from DFID and large population-based surveys commissioned by KfW in Albania, Georgia and Romania (Roth et al., 2007). Donors can use USAID-funded Guidelines for Market Research (2006) for this work.<sup>4</sup> The Guidelines include examples of qualitative studies on client

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<sup>4</sup> Sebstad, Cohen and McGuinness (2006), <http://www.microlinks.org/microinsurance>

demand. Some public good studies can be funded by donors who don't support the private sector directly.

## **Box 2: The Need for Market and Impact Research**

Donors can invest in research studies and tools to:

- Understand client needs and their current risk-management behavior. This level of analysis will determine whether microinsurance is an appropriate tool to complement or replace existing coping strategies. For example, research may reveal that ex-ante risk mitigation strategies, such as savings or preventive health measures, may be better suited.
- Analyze the overall size and scope of the potential market including the number of policy holders, their product needs and preferences, ability to pay, and risk profile. Such analysis usually calls for large population-based quantitative surveys. An example is the FinScope household surveys developed by the FinMark Trust in South Africa; these have been used to demonstrate the market for insurance services, and they also serve as an advocacy tool to speak with regulators.
- Test and develop specific products, and continuously measure client satisfaction. Programs can design and deliver high value products for clients if there is a sound understanding of how the product meets the needs, preferences, and income capacity of low-income households over time.
- Evaluate the impact that insurance services have on the social status, economic status, and behavior of low-income families. Larger-scale impact studies can be extremely valuable to understand whether and how insurance services can contribute to alleviating poverty among the target group. For example, how does access to health insurance affect the health-seeking behavior of the poor over the long term?

### **Encourage educational campaigns on insurance and help consumers make informed choices.**

Donors can build awareness around the need for insurance and help to stimulate demand by developing tools and educational materials—customized to local context and language—that convey the benefits of specific insurance products to low-income consumers. Positive experiences around “tested” products can be vital in generating demand. Market research can be used to develop such educational campaigns by revealing people’s understanding, perception, and trust of insurance products (Sebstad et al. 2006).

### **Support the development of insurance products that are customized for low-income markets.**

Donors should incentivize insurance providers, through action research and technical assistance, to offer products such as health and asset insurance, as well as accumulating value life and endowment insurance that clients value and demand. These products can be complex and expensive to deliver (see Box 3 on factors to consider in health insurance). Donors can also play an influential role in addressing specific exclusions for risks that are typically uninsured, such as HIV/AIDS (see Box 4), or extending coverage to high-risk groups such as the elderly. Other important considerations in product design and delivery include flexible premium financing and simple claims procedures.

**Improve the responsiveness of supply by facilitating the collection of actuarial data.** Given the scarcity of historical actuarial data on the low-income market, donors should build the technical and MIS capacity of existing retail-level providers to improve data collection and analysis, such

that data is standardized and, as far as possible, captured and shared on a national or regional basis. Access to quality data is critical to building confidence among insurers in the risk structures of the low-income market. With a better understanding of the risks involved, commercial insurers may be able to reduce the loadings that they attach to their products. Donors should also emphasize the public good nature of actuarial data, but recognize that not all insurers may be willing to share proprietary or confidential information.

### **Box 3: Initial Factors to Consider in Health Insurance**

The need for protection against sickness, chronic illness, and accident is paramount among low-income clients (Sebstad et al. 2006, Roth et al. 2007). However, the provision of health insurance is costly and complicated by the following factors:

- **Moral hazard, adverse selection, and fraud are particularly problematic in health insurance.** As with life and weather insurance, the subjective nature of the insured events (sickness) may not be verified and can result in high enrollment of at-risk groups (adverse selection) or over-utilization of services (moral hazard) (Radermacher et al. 2006).
- **Health insurance is intrinsically linked to a health care provider** (a third party or in-house facility) with the following implications:
  - Access to quality health services is critical for health insurance to succeed;
  - Costs associated with fraud and moral hazard can occur at the level of the health care provider and the client. For example, a provider may over-prescribe or add additional procedures if a client's bill is covered by insurance.
  - Strong MIS platforms and streamlined payment and reimbursement policies are needed to exchange information efficiently, provide services, control costs, and monitor fraud.
- **Client involvement and buy-in is indispensable** for health insurance:
  - In general, to ensure against adverse selection, health insurance only works with pre-existing groups, such as informal savings collectives or associations.
  - Clients are extremely sensitive to the product features (benefits and exclusions) which is more likely to influence adoption as compared with life or property insurance.

**Build the evidence base around the impact of microinsurance on clients.** Donors can play a critical role in funding long-term impact studies to reveal the social and financial impact of microinsurance services on the lives of the poor. They can also develop social indicators and tools that can assist retail-level providers to enhance their routine monitoring, such as measuring the poverty level of its clients and verifying that its intended target is really the focus of its operations. Information from impact studies and social performance monitoring can feed back into the design of responsive products and delivery mechanisms. Better evidence about the impact of microinsurance can also be useful for advocacy and dialogue with policy makers, supervisors, and the private sector.

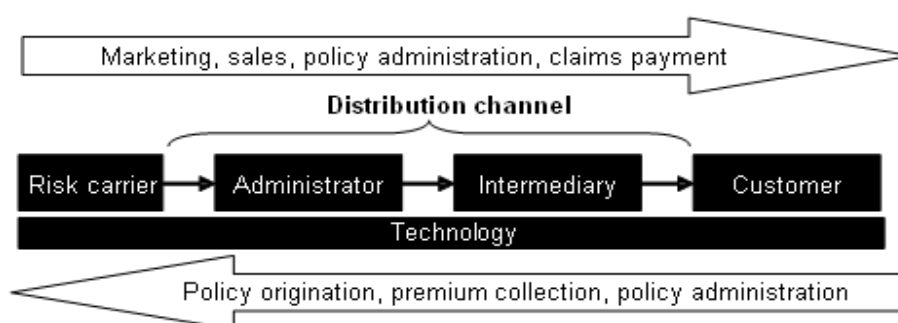
#### Box 4: Coverage for HIV/AIDS Through a Risk Equalization Fund

PharmAccess is a Dutch not-for-profit foundation which specializes in HIV/AIDS treatment, focusing on reaching uninsured populations in Africa. In 2006, PharmAccess supported the establishment of a risk equalization fund in Namibia, called HEALTH-IS-VITAL, to share risks resulting from the high HIV/AIDS prevalence in the country. PharmAccess provides a cross-industry subsidy for every contribution made to participating programs, thus encouraging more programs to enter the pool and “equalize risk” among different population groups. The result is a low-cost health package covering a defined set of HIV/AIDS treatment benefits, including anti-retroviral therapy and hospitalization. Coverage also includes literacy activities to improve knowledge on HIV/AIDS treatment and prevention. By end 2006, the fund had offered coverage to 32,000 beneficiaries. The fund is approved by the Namibian Financial Institutions Supervisory Authority. ([www.pharmaccess.org](http://www.pharmaccess.org)).

### 3.2. Micro Level: Retail Insurance Providers

The supply chain for insurance can be categorized by function: risk carrier, administrator, delivery channel, and technology platform. **Risk carriers** are liable for the risk; they may be for-profit or not-for-profit entities, and they may or may not be regulated by insurance law. Risk carriers include cooperatives or mutual insurance companies, joint stock companies, public sector insurers, mutual associations, and community based schemes. (See Table 1 for a classification of risk carrier according to regulation). **Administrators** offer specialized back office support or claims processing in the supply chain (see Box 5 on the Micro Insurance Agency). These functions may also be carried out directly by the risk carrier or delivery channel. **Delivery channels** (legally registered as “intermediaries”) deal directly with clients; they include MFIs, credit unions, cooperatives, labor unions, retail outlets, non-governmental organizations (NGOs), post offices, or other specialized sales forces.<sup>5</sup> **Technology platforms** enable the processing of services across the chain, and they include electronic media such as mobile phones or social mechanisms such as group-based premium collection.

Figure 2: Insurance Value Chain




Source: Genesis Analytics, adapted from Leach, FinMark 2005.

<sup>5</sup> This Note refers to intermediaries as “delivery channels” since not all channels are formally licensed as intermediaries.

Donor involvement at the micro retail level can be discussed along a continuum of support in terms of “**downscaling**” and “**up-grading.**” On the one hand are regulated commercial insurers that recognize the growing market among poor and low-income segments but do not have adequate know-how to appropriately and efficiently serve this market. On the other hand are mutuals, NGOs, community-based and informal programs that may require assistance to formalize their operations and achieve scale and sustainability. While some of these latter institutions are professionally run and managed, they are generally not prudentially supervised under regulation.

**Table 1: Classification of Retail Insurance Providers by Type of Regulation**

<b>Organizations regulated and licensed under the insurance law</b> (Insurers)	<b>Organizations regulated and/or licensed under any other law</b> (Formal entities under laws other than the insurance law)	<b>Informal programs</b> (Entirely unregulated and under no legal setting)
<ul style="list-style-type: none"> <li>• Commercial insurers (joint stock companies)</li> <li>• Cooperatives or mutual insurers (member based)</li> <li>• Some jurisdictions exempt certain insurers from being supervised even though they do insurance business.</li> </ul>	<ul style="list-style-type: none"> <li>• Funeral societies or associations</li> <li>• Cooperatives under the cooperatives authority</li> <li>• Mutuals under the mutual authority or other law</li> <li>• Health insurance programs or health providers under health authorities</li> <li>• Insurance offered through post offices under the postal authority</li> <li>• Non-governmental Organizations (NGOs)</li> </ul>	<ul style="list-style-type: none"> <li>• Funeral parlors or unregistered death benefit associations</li> <li>• Informal groups and community associations</li> </ul>
Donor support to “downscale”		Donor support to “upscale”

Source: Adapted from IAIS-CGAP Joint Working Group, *Issues in Regulation and Supervision of Microinsurance*, 2007.

**Lessons Learned**

**A variety of institutions underwrite risk and deliver insurance, but many lack adequate capacity.** The landscape of retail level providers is wide and differentiated, with new entrants starting to reach the low-income market (see Table 1). The capacity of different providers to underwrite and deliver insurance depends on their particular cost structures, incentives, regulation, and market dynamics.



**Institutions that carry the insurance risk should have a core insurance competency.** Insurance is highly specialized. Ideally, institutions that carry risk are structured so that insurance services are managed and monitored as an independently viable business. Institutions that utilize financial sector infrastructure, such as MFIs, have also developed specialized insurance practices. For example, the CARD Mutual Benefit Association, Inc. in the Philippines was formed as a subsidiary of the CARD Mutually Reinforcing Institutions (MRI), a group of financial assistance and technical service providers. Insurers that are regulated and licensed under insurance law are generally obligated to comply with industry standards on financial and risk-management practices.

#### **Box 5: An Insurance Broker for the Poor: The Micro Insurance Agency**

The Micro Insurance Agency, a fully owned subsidiary of Opportunity International, is an insurance brokerage network or “administrator” dedicated to serving the poor with a range of insurance products. Broker networks can be effective in filling key gaps around distribution, product quality, and pricing for the low-income market. Established in 2005 with seed capital from donors, the Agency provides technical assistance to insurance companies to customize products for low-income consumers. As professional insurance brokers, the Agency acts as an intermediary between insurance companies and a variety of delivery channels, including MFIs, NGOs, retailers and mutuals, and it offers efficient back-office administration support to both. In its function it is able to leverage the portfolio of several channels to achieve the best terms and conditions. The Agency works in 10 countries and serves over 3 million clients.

Interview: Richard Leftley, MIA, September 2007

**Commercial insurers are starting to serve low-income consumers but generally offer products of limited economic value to clients.** Although they are newcomers in the sector, commercial insurers cover at least 38 million lives in the 100 poorest countries (Roth et al. 2007). However, commercial insurers have often focused on life insurance products that are less risky and more likely to generate a profit rather than products tailored to meet the needs of the low-income market. Donors have recently started to support commercial insurers to develop higher value products for clients. For example, several multilateral development banks recently invested in ParaLife (see Box 6), a socially responsible insurer that serves the low-income market with a focus on people with disabilities.

**Donors have played a significant role in the development of mutual health insurance schemes, but challenges relating to their scale and sustainability remain.** International agencies such as ILO, CIDR, GTZ, World Solidarity and the USAID-funded Partners for Health Reform Plus have supported the expansion of community based health insurance schemes, especially in Africa. In their support, Donors have generally prioritized social aspects (community mobilization, education, cohesion, and ownership) over technical issues related to institution building, product design, and administration. For a variety of reasons, sustainability objectives often have been compromised.

### **Box 6: ParaLife: A Socially Responsible Microinsurance Provider**

Formed in 2007, ParaLife is a specialized provider of insurance for low-income people and for people with disabilities. ParaLife offers life insurance coverage with associated savings products for disabled people and their caregivers. Under the umbrella of a Swiss Holding Company, the ParaLife Group includes a central management company and a reinsurance facility. ParaLife offers its services through its local operating entities and in partnership with leading insurance companies. These local representations manage insurance platforms that are specifically designed to serve ParaLife's target customers and distribution partners. Local ParaLife Foundations offer specialized job training for people with disabilities. Shareholders include the International Finance Corporation (IFC), the InterAmerican Development Bank (MIF), the Andean Development Corporation (CAF), Investment Funds, and private individuals. The Group started operations in its first market, Mexico, and it will focus on the Latin American Region.

Interview: Rolf Hueppi, ParaLife, Nov 2007

#### ***Recommendations for Donors***

Before funding a microinsurance program, donors should conduct appropriate institutional due diligence. In identifying potential partners, donors should assess whether they have the core competencies to fulfill the function they will play, whether risk carrier, administrator, delivery channel, or technology platform. For risk carriers, donors should pay particular attention to ensure that they have adequate risk-management capacity.

**Work through existing insurers, whenever possible.** Donors should work through existing insurance providers in markets where they are in place and have the necessary expertise. Such institutions should have the know-how to respond to client demand, have strong operations management and information systems, and maintain sound long-term financial, investment, and risk-management strategies.

**Facilitate the entry of commercial insurers to low-income markets with time-bound, conditional support.** Although funding is rarely a major constraint for commercial insurer's entry, a well-placed donor subsidy can help address concerns about high risks (whether real or perceived), facilitate experimentation, create a demonstration effect, or simply provide "psychological comfort." Donors should be clear about the "additionality" from partnering with commercial insurers, and they should ensure that objectives and expectations are aligned (see Box 7). Donor funding may help insurers test and scale up a new product line and develop appropriate marketing strategies to reach a diversified client base. Donors should set clear reporting and performance benchmarks to determine whether clients are receiving high value products, for example, by measuring the promptness of claims settlements or client renewal rates. They should consult the "Performance Indicators for Microinsurance Practitioners", CGAP Working Group on Microinsurance 2008.<sup>6</sup> While untested, donors may also consider introducing profit sharing arrangements according to industry standards between commercial insurers, distribution channels and policyholders.

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<sup>6</sup> Wipf, John and Garand 2008.

### **Box 7: Identifying Mutual Objectives between Donors and Commercial Insurers**

When the Swiss Agency for Development Cooperation (SDC) was approached by Zurich Financial Services, a multinational insurance firm, to partner in going “down market,” they had to develop a clear strategy to justify this support and work carefully on the negotiation process. The agreement specified that a pre-defined number of low-income people would gain access to services at the end of the pilot and that all review results would be in the public domain. With access to specific microinsurance know-how, local context knowledge, and partnership credibility from SDC, Zurich Financial Services has invested in building staff capacity, market research, and product development, and it has created a dedicated microinsurance unit at its headquarters.

Interview: Hansruedi Pfeiffer SDC, Oct 07

**Upgrade the financial and management capacity of insurers that require support.** Donors can offer technical support to build the capacity of informal or semi-formal insurers or link them to regulated insurers where this option may be more effective. Insurers that are not regulated by the insurance laws may be weaker and will need comprehensive institutional strengthening compared to capital-based insurers. Specific areas that may require support include: distribution and premium collection systems, risk management procedures, data collection methods, monitoring and analysis systems, and technological platforms.

**Identify and help develop capacity of alternative delivery channels that will help insurance providers reach greater scale and efficiency.** Besides financial service providers like MFIs and credit unions that have a natural efficiency in transacting financial services, donors can help to build partnerships with other channels that have the potential to reach scale, including retail stores, cell phone networks, and associations in the informal sector (see Box 8 on the value of delivery channels). Donors can provide technical support in identifying new partnerships, developing business plans, designing appropriate products and administrative systems, and ensuring adequate protection measures for clients.

### **Box 8: The Value of Delivery Channels**

Microinsurance delivery channels can help reduce premiums and allow consumers to purchase insurance from organizations or people they trust.

A good delivery channel will:

- Service regular transactions with low-income people,
- Offer convenience and good customer service,
- Enjoy the trust of their clients,
- Have a large volume of customers that are potential policy holders,
- Be trustworthy to the insurer,
- Have secure and efficient systems to collect and deliver premiums, and
- Provide transparent information on the cost of insurance services, coverage, and other performance ratios.

(Adapted from McCord and Roth 2006)

**Enhance delivery organizations' ability to negotiate partnerships with formal insurers.** Donors can provide technical support to delivery channels to negotiate strong partnership terms with insurance companies. Key aspects to include in partnership agreements include: 1) assurance that product features and terms are in line with clients' needs; and 2) provision of training to front-line staff around the product itself so that they are comfortable selling the products to their clients. Donors can support and promote efficient systems interface between channels and insurers to reduce overall costs.

**Explore the potential of new technologies to increase the efficiency, accessibility, and scale of microinsurance services.** Donors should invest in testing new mobile technologies and data storing devices. Technologies that have been used in the banking sector, such as personal digital assistants (PDAs), smart cards, and mobile phone banking are gradually being tested and adapted to the insurance sector. For example, Microcare (Uganda) and Opportunity Bank (Malawi) both issue smart cards to their clients. This enables them to verify that the premium is up to date and determine the level of coverage that the client has purchased (Botero, et al. 2006). Donors should advocate for open-source licensing so they advance the industry at large.

### **3.3. Meso Level: Market Infrastructure**

The meso level consists of insurance business services and infrastructure to support the functioning of micro-level activities and help to address structural constraints faced in the industry. To date, limited information on the target clientele, the lack of appropriate information systems, poor training capacity, and the scarcity of reinsurance are constraints faced by microinsurers across the board. With a few exceptions, donors have not significantly invested in demand driven structures that can advance the provision of information and technical assistance at the meso level. That is probably due to a natural tendency to focus on the retail level during the early stages of market development. As retail capacity develops, key

market infrastructure such as information clearinghouses will become critical for further expansion and viability. Specialized demand driven and/or commercially oriented technical service providers and advocacy platforms may be best suited to address such meso level constraints. However, donors and others may help catalyze private actors so that retail players can have access to the critical services and information they need to become viable and reach scale.

### ***Lessons Learned***

**Quality technical assistance and training on insurance (especially microinsurance) is scarce.** Insurance providers require administrative systems and staff capacity to effectively assess risks, increase efficiencies, and become more transparent. They also need broad advocacy and lobbying platforms and shared facilities for managing public goods. These services are optimally provided by demand-driven networks or private sector institutions so they are offered on a sustainable basis (see Box 9). However, market infrastructure typically only develops over time, as providers at the retail level reach a critical mass and start demanding these services.

**Lack of data creates a barrier to entry.** Microinsurance providers require quality historical data (e.g., on clients, incidence of risks, claims history, performance) to enable actuarial, underwriting, and business decision making. Statistical information to determine risk-probabilities is vital for the full range of players involved in insurance. Donors, governments and the private sector are less likely to invest in programs without an understanding of providers' performance on key measures.

### **Box 9: Local Technical Assistance Facility in the Philippines**

The Canadian Cooperative Agency provides technical support to strengthen Risk Management Solutions Limited (RIMANSI), a local technical assistance provider in the Philippines. RIMANSI was founded by MFIs belonging to the CARD network to respond to their needs as MFI-based Mutual Benefit Associations. RIMANSI provides assistance in market research, business planning and registration, ongoing compliance with regulations, and it helps partners install simple MIS. They also offer a longer term package in capacity building and product development for partners. RIMANSI acts as a hub for other donors planning to engage in the Philippines, such as German Technical Assistance (GTZ), with its upcoming sector-wide Microinsurance Innovations Project. RIMANSI is in the process of expanding its services to the region by starting to work in Cambodia.

(Wiedmaier-Pfister, et al 2007)

**Reinsurance is critical for the development of microinsurance.** Reinsurance is a risk-management tool that allows primary insurers to transfer excessive losses to an external insurer. However, reinsurers are reluctant to insure microinsurance providers because of insufficient volumes, limited understanding of the risks, lack of management capacity among providers, and a perception that the market is not viable (Garand and Wipf 2006). Of the different services that reinsurers provide (see below), protection from catastrophic coverage, such as natural disasters, is considered most essential (Garand and Wipf 2006). In all cases, reinsurance should only be considered for insurers that are viable or have the potential to become viable, thus bolstering their internal risk-management capacity.

Reinsurance is an important risk-management tool that allows primary insurers to manage their assumed liabilities by transferring certain risks to an external insurer. Insurers purchase reinsurance for three primary reasons:

- To manage risk such as catastrophes, claims severity risk, claims incidence risk, and to manage irregular patterns of claims.
- To increase their management and actuarial skills by using the knowledge of the reinsurer, and help them comply with industry standards.
- To access surplus or capital relief.

(Garand and Wipf, 2006).

### ***Recommendations for Donors***

**Support the development of technical assistance and training networks.** Donors can help foster local or regional institutions that deliver specialized technical assistance needs on a sustainable basis. This entails embedding service delivery within the market infrastructure – such as advocating for the inclusion of microinsurance tracks within national curriculum or in training offered by associations of insurers. Organizations that are based on the ground or work through local affiliates can best assess capacity-building needs and provide solutions. These may include training of front-line managers, development of client education materials, and training to insurers on regulatory issues. Network organizations can additionally play a neutral advocacy role in bringing different stakeholders to the table (see Box 10). Donors should consider joint funding to maximize the effectiveness of initiatives that address constraints across an industry.

#### **Box 10: The Micro Insurance Academy**

The Micro Insurance Academy in India addresses capacity gaps in the market by providing training to insurance providers, assisting in developing context-specific insurance solutions, offering advocacy at local and national levels, and supporting linkages for community-based programs to access reinsurance.

**Provide support to information clearinghouses that track and disseminate market data.** Donors can work to develop information sources such as risk maps that improve the institutional capacity of both public and private sector providers to identify and analyze risk. Donors can also support national or regional networks to serve as channels for warehousing standardized information and tools that can be utilized by the sector at large.

**Promote transparency by developing common reporting formats and performance benchmarks appropriate for different business models and products.** Donors should invest in defining a data standard (common format and common indicators) for MIS to improve the quality and compatibility of reports on different programs and products, and streamline the use of common performance indicators. The CGAP Working Group on Microinsurance has defined key operating principles and indicators that can serve as a foundation for analyzing the performance of specific programs.<sup>7</sup> By using this framework, donors can develop common benchmarks that will allow them, the insurance providers, and others to evaluate performance across peer groups and programs.

**Help consolidate mutual health organizations.** Mutual health organizations (MHOs) are constrained by their small membership base and low premium levels to become financially viable.<sup>8</sup> Where there is a sizable base of MHOs at the retail level, donors can provide technical support to consolidate MHOs into networks, unions, or federations which can improve their prospects for sustainability, increase their negotiating power, maximize their member benefits, and help them to achieve scale. Shared technological platforms can be critical in the consolidation process. Donors can also play an important role in supporting mutual programs to merge with other risk pools and access reinsurance.

**Facilitate reinsurance solutions to expand coverage and protect clients.** Donors should facilitate access to reinsurance for informal programs by building their financial and risk management capacity, helping them to form federations or larger risk pools and advocate for enabling regulatory and licensing policies. While it has not been tested to date, donors can facilitate the involvement of reinsurers by providing partial guarantees. It is critical that such arrangements are clearly forecasted to provide diminishing benefits over a specified timeframe (McCord et al. 2003). Donors can work in partnership with governments to design financially sustainable reinsurance solutions (see Box 11). In no case should donors directly manage reinsurance for partners.

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<sup>7</sup> Wipf and Garand, 2008. Performance Indicators for Microinsurance: A Handbook for Microinsurance Practitioners. <http://www.microinsurancecentre.org/UI/DocAbstractDetails.aspx?DocID=632>

<sup>8</sup> Based on a study in 11 francophone countries and 622 schemes, most mutuals cover fewer than 1000 people.



### Box 11: Public-Private Risk-Sharing in a Livestock Insurance Program in Mongolia

The World Bank is working with the Government of Mongolia and commercial insurers to pilot a country-wide index-based livestock program. Participating insurers share underwriting gains and losses in the Livestock Insurance Indemnity Pool (LIIP), a syndicated pooling arrangement. The Government of Mongolia fully covers insured losses beyond the reserves of the reinsurance pool through an unlimited stop loss reinsurance treaty. The World Bank has offered a contingency loan to the Government to pay off any losses beyond the initial reinsurance reserve. It supports a public-private partnership that aims 1) to offer insurance coverage that is attractive to herders, 2) to involve the domestic insurance market while protecting it against catastrophic losses, and 3) to limit the fiscal exposure of the Government.

(Olivier Mahul and Jerry Skees 2006)

### 3.4. Macro Level: Supportive Policy Environment

A supportive policy and regulatory framework for microinsurance is one that is inclusive of different ministries, public agencies, and private stakeholders, and allows for the emergence of different types of providers to reach different market segments with high-value products. Regulators are faced with the dilemma of finding a balance between achieving stability and access in the microinsurance market (Leach 2005). Donors can be effective and neutral advocates in working with policymakers to facilitate enabling policy frameworks for microinsurance, helping to design and implement sector-wide regulatory reforms, and advocating for effective allocation of donor and public subsidies.

#### Characteristics of an Inclusive Insurance Sector:

- Access for all insurable people
- Multiple and diverse types of providers
- Financially sound providers and intermediaries
- Access at reasonable cost
- Diversity of products
- Effective consumer protection
- Microinsurance as an integral component of the financial sector

(Klein and Wiedmaier-Pfister 2007).

#### *Lessons Learned*

**An enabling policy environment is needed for a microinsurance market to develop its full potential.** Sound policies for microinsurance encourage innovation, investment, growth, and sustainability of the insurance sector, while protecting consumers and the soundness of institutions. Major policy tools that have been used by governments to facilitate an inclusive market include rule-setting and enforcement, the provision of fiscal, tax or other incentives, and financing of public goods. Having an explicit policy allows governments to flag microinsurance on their agenda, thus encouraging others to get involved. In many cases public sector officials are in a good position to provide leadership and facilitate the bringing together of a wide range of stakeholders.

**Many regulatory and supervisory frameworks—often inadvertently—pose barriers to entry, formalization, and growth of the sector.** In general, supervisors lack microinsurance information and experience, and they are unaware of alternative legal and regulatory regimes



that encourage insurance for the poor (Wiedmaier-Pfister and Chatterjee 2006). Few jurisdictions have adapted their laws to promote microinsurance, and barriers to forming an inclusive market remain. These include high entry barriers such as capital or solvency requirements and complex reporting and disclosure conditions that impede the formalization of an informal program. Other obstacles include high expansion barriers, such as stringent licensing requirements for alternative delivery channels, or costly product regulations that prevent formal insurers from going down market (Klein and Weidmaier-Pfister 2007). Without rigorous market analysis and comprehensive evaluations on the impact of regulation, regulators and policymakers may not have the necessary tools and guidance to promote an inclusive microinsurance market.

### ***Recommendations for Donors***

**Help develop appropriate legal and regulatory frameworks.** Donors can advocate for and provide technical assistance to build conducive legal and regulatory frameworks, recognizing that knowledge about insurance regulation is highly specialized. They should ensure that regulations and supervision do not prohibitively limit access while attempting to support policy frameworks for an inclusive market. Regulators in India and South Africa have proactively increased commercial sector involvement in the microinsurance market, albeit using different approaches (see Box 12). Donors should review these experiences over time, monitor their impacts on clients, and apply lessons to other settings. While donors can play an important role in the policy arena, they should only do so when they have the right technical skills and experience in regulation, field presence, good retail-level knowledge, strong influencing capacity and trust of governments (IAIS-CGAP Joint Working Group 2007). Ultimately, policymakers should drive the engagement process and dialogue with local stakeholders, while donors play an advisory role as needed.

#### **Box 12: Microinsurance Frameworks in India and South Africa**

Regulators in India and South Africa have used different approaches to increase access to insurance services for the poor. In India, starting in 2002, the Insurance Regulatory and Development Authority imposed quotas to compel insurers to sell a minimum percentage of their premiums in specified rural areas and subsequently relaxed licensing standards for microinsurance delivery channels. Some insurers perceived these regulations as a cost of doing business while others, such as ICICI Lombard and Tata-AIG, approached the requirement as an opportunity to significantly expand their presence in the low-income market. In South Africa, regulators did not directly intervene to increase coverage but utilized the Financial Sector Charter whereby all financial service providers agreed to voluntarily serve the low-income market. This initiative also catalyzed new products and distribution models by commercial insurers. Donors can play an important role in assessing the ability of these different frameworks to achieve long term stability and access in their insurance markets and draw on these experiences to support sound policy development in other countries.

(Bester et al. 2007; Wiedmaier-Pfister et al. 2006).

**Support the development of consumer protection frameworks that span all levels the market.** Donors have an important role in safeguarding consumer interests as microinsurance products become more mainstreamed and a greater variety of institutions enter the market. Consumer

protection issues are cross-cutting and seek to ensure that 1) products are of high value, appropriately inform clients about the benefits and exclusions, and have simple claims-processing channels, 2) dispute resolution systems are known, accessible, and efficient, 3) delivery channels market insurance appropriately, and 4) risk carriers follow prudent financial management and investment practices to meet their short term obligations and build solvency over the long term. Consumer-protection requires attention at all levels of the market. Donors can support education campaigns to ensure that clients fully understand the product and are informed about their rights; assist insurers to develop and test simple and appropriate insurance products with streamlined channels for consumer recourse; and provide support at the regulatory level to assess the influence of existing laws and select the right combination of incentives and conditions to ensure both access and protection for clients.

**Build the capacity of policymakers, including regulators and supervisors.** Donors can play an important role in reviewing and consolidating lessons from different countries, developing model frameworks, tools, and training curriculum, and widely disseminating these resources to different jurisdictions. Technical assistance networks and structures at the meso level can be effectively drawn on to assist in delivering services in this area. Donors should also encourage direct dialogue and experience sharing between regulators and policymakers from different countries.

### **Box 13: The Role of Governments in Extending Microinsurance Services**

Government support to microinsurance can increase access for very poor and vulnerable groups. Governments can also sustain the use of donor subsidies by institutionalizing and scaling-up targeted programs. However, governments should be careful not to distort the market for private sector lead interventions. They usually do not consider the impact of subsidies on the broader market, nor assess whether the same objectives can be achieved via market mechanisms. As a result, budgetary resources may not be allocated in the most efficient way. Moreover, direct subsidies to premiums can dampen the willingness of clients to pay the full cost of insurance later on (Dror et al. 2007). For example, in a joint donor and government effort, UNDP subsidized premiums for members of the Karuna Trust in India who were below the poverty line. When the subsidy was removed after two years, over 70 percent of members wanted to drop out; half the clients ultimately renewed and paid their policies after a major client education and information campaign (Latortue 2006).

## 4. Conditions for Effective Donor Support

The effectiveness of support to the microinsurance sector rests on donor’s ability to respond to external conditions—always centered on the needs of end consumer—and on their internal vision, capacity, and responsiveness to building partnerships.

### 4.1 External Conditions

Donors should conduct a preliminary assessment of any market to determine whether microinsurance is a feasible mechanism to reduce the vulnerability of the poor and how to go about providing insurance services. The decision should be based on a full assessment of existing and potential demand, the supply of formal or informal insurance, government policy towards microinsurance and public social protection schemes, regulatory frameworks, and bottlenecks and opportunities across the insurance supply chain. For instance, some countries have well-developed commercial insurance markets, such as India; others have long histories of community-based or cooperative insurance programs, as in West Africa; still others contain a combination of different models, such as South Africa and parts of Latin America.

### 4.2. Internal Requirements

Drawing on lessons from CGAP’s past work on the effectiveness of donor support, this section offers a framework for donors to reflect on prerequisites needed to support microinsurance programs.<sup>9</sup> Five core elements can guide donors to assess their internal capacity, identify areas for improvement, and seek opportunities for collaboration that draw on their comparative advantages. All of these elements must be in place for effective programming in the microinsurance sector.

**Strategic clarity.** Donors have diverse reasons for wanting to support microinsurance. Even within the same agency, different units may have varying views on how subsidies can be used best, how much clients should pay for insurance services, and what roles the government and the private sector should play. Strategic clarity on what microinsurance can achieve affects how a donor’s objectives are set, how expertise is recruited, and what type of monitoring is implemented.

**Staff capacity.** Few donor agencies have insurance expertise. Agencies that make significant investments in microinsurance should have access to staff with appropriate technical skills. Donors can either invest in in-house expertise or ensure program staff have enough “insurance literacy” to outsource intelligently and select the best implementing partners. Some donors, like the Aga Khan Agency for Microfinance, have recruited full-time experts from leading insurance companies.

**Appropriate instruments.** Determining when and how to deploy the appropriate instrument—from technical assistance to grants, loans, equity, guarantees, and policy support—requires good knowledge of market conditions. In many instances, relatively small amounts of funding

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<sup>9</sup> This section is adapted from the chapter on the Role of Donors in the MI Compendium (Latortue 2006).

provided over longer periods are needed. Regardless of the type of support, donors should recognize the long-term nature of the business but carefully design time-bound interventions with clear exit strategies.

#### **Box 14: Innovation Grants to Advance Learning**

Donors should advance learning in the field by supporting innovation and testing. Competitive “innovation grants” to public or private stakeholders, such as those available from the ILO’s new Microinsurance Innovation Facility, can unleash new ideas and lessons. One area for innovation is in developing products that are truly client centered. Partners can be incentivized to test market research tools, pilot new products, and demonstrate how the services were able to meet client demand.

Donors can use technical assistance to strengthen specific capabilities in market research, feasibility studies, product development and testing, business planning, front and back office administration, market education and marketing. Donors can directly outsource these services or build the capacity of local technical assistance platforms to provide ongoing professional services in these areas. Financial support can be provided in the form of grants, loans, equity or guarantees. Different instruments may be more appropriate for different purposes. For example, brokerage networks that focus on harnessing commercial sector involvement may only require initial capitalization or loan funds, while advocacy platforms that work to influence regulatory frameworks will likely call for ongoing donor subsidy. A summary of different types of instruments that are available to donors are provided below with lessons from microfinance on the use of financial subsidies (see Box 15). Also, see *Annex I* for an illustrative use of donor and host-country government subsidies.

- Grants are a versatile and common type of instrument that can be used to fund a variety of technical assistance services or research and impact studies;
- Loans are an appropriate instrument for supporting institutions to enter or expand a new product or business line, or cover short-term operating expenses;
- Equity is an important source of startup capital to new ventures to create an insurance subsidiary or technical assistance brokerage firm;
- Guarantees can be an effective mechanism to introduce new reinsurers to the market.

In addition to funding and technical assistance, donors can provide policy support and advocacy to influence policy frameworks at national and regional levels, keeping in mind that any advocacy effort should be based on effective coordination between donors and strong buy-in from local industry experts.

**Accountability for results.** There is still no consensus on what constitutes good performance for microinsurance programming. In part, this is simply because microinsurance is a relatively new area. To improve accountability, donors should agree up front on desired outcomes and performance. The CGAP Working Group on Microinsurance’s subgroup on performance indicators is leading efforts to define industry-wide reporting ratios and, ultimately, to establish

benchmarks.<sup>10</sup> This work is essential to improve performance reporting and will help shape donors' performance agreements with partners.

**Box 15: Lessons from Microfinance on the Effective Use of Financial Subsidies:**

The form, intensity, timing, conditionality, and transparency of financial subsidies must be clearly defined and centered on improving the efficiency and sustainability of services to the poor. Possible negative externalities in supporting and subsidizing institutions can be contained by choosing the right type of subsidy:

- Subsidizing an intermediary distorts the market less than directly subsidizing the client.
- Subsidies with an exit strategy are preferable to subsidies without limit of time.
- Regressive subsidies are preferable to linear subsidies.
- Subsidies that come without strings attached are likely to have a greater detrimental effect on the institution than performance-linked grants.
- Subsidies to networks or apex institutions risk fewer distortions than subsidies to individual institutions.

(Adapted from Bernd Balkenhol, ILO 2007).

**Knowledge Management.** Microinsurance is complex, and it has multifaceted objectives. When microinsurance programs originate from different departments within funding agencies (health, agriculture, financial sector), opportunities for learning and sharing ideas can be missed. Good knowledge management is crucial for donors to learn from their own and others' experiences. Since 2002, the CGAP Working Group on Microinsurance has provided a platform for donors, insurers, policy makers, and technical service providers to share knowledge, document good practices, and coordinate with each other. It now has more than 80 members.

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<sup>10</sup> <http://www.microinsurancecentre.org/UI/DocAbstractDetails.aspx?DocID=632>

## **5. Conclusion**

A handful of donors have pioneered different approaches and partnerships in microinsurance and contributed to an important body of documented research, good practices, and lessons. While lessons are still emerging, it is critical to act on the experiences that have accumulated so far and continue to feed into the learning process. Given that no more than 20 percent of the active population in many developing countries is included in regular social security systems, the task of extending coverage to all is a tremendous one—and it calls for innovation, caution, partnerships, and a range of approaches. Market forces alone will not close the gap for insurance services needed by the poor, and neither will state-administered social protection. Donors are well positioned to find common points of intersection between these worlds and push the boundaries around each.

## Appendix 1: Subsidy Matrix

The following matrix illustrates how subsidies may be delineated between donors and the public sector (host-country governments). It distinguishes the source and type of subsidy, the area of the market to which it may be targeted, and whether it would have a short or long-term horizon. The matrix provides a framework for thinking about subsidies, but it is by no means exhaustive or prescriptive.

	Source of Subsidy	
Target	Donor	Host Government
Policy Holder	Objective: To ensure that the poor have permanent access to affordable and appropriate insurance services.	
	<p><b>Indirect premium subsidies</b> to address specific exclusions (e.g., risk equalization funds to cover HIV/AIDS) [Long term]</p> <p><b>Grants and technical support</b> to conduct impact studies and market research. [Long term]</p>	Carefully designed <b>premium subsidies</b> targeted to excluded groups or risks difficult to insure. [Long term]
Micro Level	Objective: To build capacity of retail providers, test institutional models that can achieve scale, and encourage simple and innovative product development.	
	<p><b>Competitive grants</b> to stimulate development of new technologies or insurance products. [Short term]</p> <p><b>Grants and loans</b> to cover start-up infrastructure or operating deficits during the early years of operation for retail providers. [Medium term]</p> <p><b>Conditional grants</b> to support capacity building of retail providers. [Med term]</p>	<b>Conditional transfers or loans</b> to cover operating costs of retail providers during the early years. [Medium term]
Meso Level	Objective: To increase the scale, quality, and sustainability of support infrastructure and business services	
	<p><b>Grants</b> to underwrite the cost of research and data to reduce barriers for reinsurers to enter the market. [Medium term]</p> <p>Upfront investment of <b>loans or equity</b> to support local or regional technical assistance networks. [Long term]</p> <p><b>Partial guarantees or debt</b> to facilitate reinsurance [Long term]</p>	<p><b>Conditional transfers or loans</b> to support new training or technical assistance structures. [Medium term]</p> <p><b>Reinsurance fund contributions or quota share</b> to stimulate reinsurers to enter the market. [Long term]</p>

	Source of Subsidy	
Target	Donor	Host Government
Macro Level	Objective: To foster an enabling policy environment and inclusive market for microinsurance services.	
	Loans or grants to government to implement schemes to reach vulnerable groups [Long term]	<b>Tax or other fiscal incentives</b> for retail providers to serve the poor. [Long term] <b>Sector-specific transfers.</b> For example, to increase access to preventive health services for the poor. [Long term]
	System-wide approach for cross subsidies through <b>risk-equalization funds</b> (co-financing between donor and government). [Long term] <b>Financing risk-sharing</b> on reinsurance coverage (donors, public and private sector). [Long term]	



## Glossary<sup>11</sup>

Actuary	A person who calculates insurance and annuity premiums, reserves, and dividends.
Administrator	A sales and services representative who handles insurance for clients, offering back-office support and claims processing for insurance companies (risk-carriers), and offering clients with different insurance products.
Adverse selection	The tendency of persons who present a poorer-than-average risk to apply for, or continue, insurance. If not controlled by underwriting, it may result in higher than expected loss levels.
Beneficiary	The person who receives a life insurance benefit in the event of a claim.
Benefit	The amount payable by the insurer to a claimant or beneficiary upon the occurrence of the insured event.
Claim	A request for payment under the terms of an insurance contract when an insured event occurs.
Claims processing	The system and procedures that links the occurrence of an insured event with a payout.
Claims ratio	The actual claims divided by the risk premium. Insurers generally prefer for the claims ratio to be less than 100 percent, that is, actual claims be less than expected claims.
Co-payment	Mechanism used by insurers to share risk with policyholders and reduce moral hazard, which establishes a formula for dividing the payment of losses between the insurer and the policy holder.
Covariant risk	A peril that affects a large number of the policyholders at the same time, e.g., an earthquake, or several risks that consistently occur together.
Cover or coverage	The scope of protection provided under an insurance contract.
Credit life insurance	Insurance coverage that repays the outstanding balance of a loan if a borrower dies.
Delivery channel	Entity used to deliver insurance policies and services to clients.

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<sup>11</sup> Sources (unless otherwise noted): Churchill et al. *Making Insurance Work for Microfinance Institutions: A Technical Guide to Developing and Delivering Microinsurance* (ILO 2003); Roth et al, *The Landscape of Microinsurance in the 100 Poorest Countries*. Microinsurance Center. 2007; and Churchill, (ed) *Protecting the Poor: A Microinsurance Compendium*, ILO 2006.

Endowment insurance	Similar to a term insurance except that if the life insured survives the term, the beneficiary receives a lump sum payment representing the cash value of accumulated premiums plus interest. Also called “cash value policies.”
Exclusions	Specific conditions or circumstances listed in the policy for which the policy will not provide benefit payments.
Expense ratio	The ratio of a company’s operating expenses to premiums.
Group insurance	Insurance written on a number of people under a single master policy, issued to their employer, an association, or other organization with which they are affiliated.
Health insurance	Protection from the costs of illness, accidents, and other health-related risks.
Individual insurance	A policy that provides protection to a policyholder and/or his or her family; sometimes called “personal insurance” as distinct from group and blanket insurance.
Informal insurance provider	An insurance risk holder that is not regulated under an insurance act, and is not supervised by an insurance supervisory body.
Institutional risk	Risks faced by an insurer as a consequence of offering insurance. For example, insurers risk experiencing losses on their portfolio if claims or administration costs exceed expectations or if premium revenues fall below expected levels.
Insurance risk	Risk event that is deemed to be insurable because it is idiosyncratic, easily defined, will attract a large risk pool, and has easily estimated probability and loss.
Insurance	A system under which individuals, businesses, and other entities, in exchange for a monetary payment (or premium), are guaranteed compensation for losses resulting from certain perils under specified conditions.
Insured	The policyholder, the person, or entity protected in case of a loss or claim.
Life insurance	Coverage providing for payment of a specified amount on the life insured’s death, either to the deceased’s estate or to a designated beneficiary; or in the case of an endowment policy, to the beneficiary at a specified time.
Loading	The amount that must be added to the pure premium for expenses, profit, and a margin for contingencies.
Microinsurance	A subset of insurance that provides financial protection to the poor from certain risks in a way that reflects their cash constraints and coverage requirements.

Moral hazard	A risk that occurs when insurance protection creates incentives for individuals to cause the insured event; or a behavior that increases the likelihood that the event will occur, for example, bad habits such as smoking in the case of health insurance or life insurance.
Morbidity	The relative incidence of disease.
Mortality	The proportion of deaths to population.
Mutual insurer	Insurance in which the ownership and control is vested in the policyholders.
Policy	The legal document issued by the company to the policyholder that outlines the conditions and terms of the insurance; also called the policy contract or the contract.
Policyholder	A person or entity that pays a premium to an insurance company in exchange for the coverage provided by the insurance policy.
Premium	The sum paid by a policyholder to keep an insurance policy in force.
Property insurance	Insurance providing financial protection against loss of, or damage to, real and personal property.
Protection	Ability of an insurance product to provide compensation for losses incurred. Protection can be full or partial.
Public-private partnership	Partnership between national or local government and private insurance providers (including commercial, community based, or NGOs).
Reinsurance	A form of insurance that insurance companies buy for their own protection.
Reserves	An amount representing liabilities kept by an insurer to provide for future commitments under policies outstanding.
Risk	The chance of a loss
Risk carrier	The entity that is liable for the risk.
Risk equalization fund	A fund that compensates insurers according to the expected health care costs of their enrollees, aiming to cover the difference between the standard premium and the full expected costs of care for a high-risk individual. It pays out insurers based on the ex ante probability of incurring high costs given the enrollee profile, and removes the disincentive for insurers to recruit high risk enrollees.
Risk management	Systematic processes for the identification and evaluation of pure loss exposures faced by an organization, and for the selection and implementation of the most appropriate techniques for treating such exposures.

Risk pooling	The spreading of losses incurred by a few over a larger group.
Social protection	A variety of policies and programs designed to reduce poverty and vulnerability by ensuring benefits around unemployment, disability, healthcare, old age, etc. This term includes both government sponsored policies and programs and private or non-statutory programs with similar objectives (e.g., mutual societies).
Stop-loss policy	An agreement from a reinsurer to cover total claims over a certain agreed upon value of an aggregate pool of policies.
Technology platforms	A system or mechanism that enables the processing of services across the microinsurance supply chain, e.g., mobile phones or social groups that facilitate premium payments.
Term insurance	Provides basic insurance protection for a fixed period of time (the term). The policy pays death benefits only if the life insured dies during the term.
Underwriting	Process of selecting risks for insurance and determining in what amounts and on what terms the insurance company will accept the risk.
Verification	The process by which claims are determined as being valid, e.g., life insurance requiring a death certificate and/or attending the funeral of the deceased.
Weather-based index insurance	A strategy for dealing with high-loss covariate risks, such as crop failure, by ensuring against the source of risk (such drought or flooding) rather than the economic losses. Payments are linked to an objective and independent index and do not require the calculation of actual losses for each individual.

## Key Informants and Reviewers<sup>12</sup>

NAME	AFFILIATION
Jamie Anderson	International Fund for Agricultural Development (IFAD)*
Toon Bullens	Interpolis, Netherlands
Tom Carter	U.S Agency for International Development (USAID)*
Doubell Chamberlain	FinMark Trust
Arup Chatterjee	International Association of Insurance Supervisors (IAIS)*
Craig Churchill	International Labour Organization (ILO)*
Monique Cohen	Microfinance Opportunities*
David Dror	Micro Insurance Academy
Iddo Dror	Micro Insurance Academy
Denis Garand	Independent consultant and Micro Insurance Agency*
Rolf Hueppi	ParaLife
Priyanka Jaisinghani	Bill and Melinda Gates Foundation
Vijay Kalavakonda	World Bank*
Brigitte Klein	German Technical Assistance (GTZ)*
Alexia Latortue	CGAP*
Jeremy Leach	FinMark Trust
Richard Leftley	Micro Insurance Agency.
Rodney Lester	World Bank
Tim Lyman	CGAP*
Michael J. Mc Cord	Microinsurance Centre*
Aude de Montesquiou	CGAP*

<sup>12</sup> Reviewers are marked with an asterisk.

Allyn Moushey	U.S Agency for International Development (USAID)*
Gerry Noble	Microcare Ltd.
Hansuedi Pfeiffer	Swiss Agency for Development Cooperation
Ralf Rademacher	Micro Insurance Academy, India*
Gaby Ramm	Consultant to German Technical Assistance (GTZ)*
Jonathon Ridley	Enterplan
William Smith	Ford Foundation
Jeremy Swanson	Enterplan
Craig Thorburn	World Bank*
Gabrielle Tomchinsky	ACCION International*
Nhu-An Tran	U.S Agency for International Development (USAID)*
Martina Wiedmaier-Pfister	German Technical Cooperation (GTZ)*
Ellis Wohlner	Independent Consultant*

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## **Related Websites and Tools**

**ILO STEP Programme:**

***Global Information on Microinsurance***

<http://www.ilo.org/gimi/ShowResources.do>

***Global Extension of Social Security***

<http://www.ilo.org/gimi/gess/ShowMainPage.do>

**Microfinance Opportunities**

<http://www.microfinanceopportunities.org/pubsMI.html>

**MicroLINKS: Microinsurance Note Series**

[http://www.microlinks.org/ev\\_en.php?ID=18299\\_201&ID2=DO\\_TOPIC](http://www.microlinks.org/ev_en.php?ID=18299_201&ID2=DO_TOPIC)

**MicroSave-Market Let Solutions for Financial Services**

<http://www.microsave.org/default.asp>

**The Global Financial Education Program**

<http://www.globalfinancialled.org/index.html>

**The International Cooperative and Mutual Insurance Federation**

<http://www.icmif.org/>

**The Micro Insurance Academy, India**

[www.microinsuranceacademy.org](http://www.microinsuranceacademy.org)

**Microinsurance Focus**

[www.microinsurancefocus.org](http://www.microinsurancefocus.org)

**The Microinsurance Center**

<http://www.microinsurancecentre.org/UI/Home.aspx>