

Microinsurance: What Can Donors Do?

Poor people in developing countries enjoy few safeguards against the numerous perils of life—illness or injury, natural disasters, and loss of property. Microinsurance is growing in popularity among donors as one means of helping the poor manage risks and reduce their vulnerability.¹ This Brief addresses how donors can effectively support microinsurance.

Governments in developing countries are often unable to provide adequate social protection for their poorer citizens. At the same time, formal insurers in many markets do not see low-income people as viable clients. (However, there has been recent progress with some simple products, such as life insurance.)

HOW CAN DONORS EFFECTIVELY SUPPORT MICROINSURANCE?

In most countries, reaching scale and providing real value to clients will likely require donor involvement in the medium term. Donors will need appropriate expertise and resources to engage effectively in microinsurance because it is relatively new, complex, and risky.

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 the reasons for engaging in microinsurance affects how a donor's objectives are set, how expertise is recruited, and what type of monitoring is implemented.

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 funders, like the Aga Khan Agency for Microfinance, have recruited full-time experts from leading insurance companies.

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 provided over longer periods are needed. In markets where commercial insurers show interest, donors should focus on brokering relationships with organizations close to target clients. Donors can also support public goods like research and consumer education. However, in the numerous markets where formal insurers are not yet willing to step in, donor funding can help build the institutional capacity to provide insurance services. The Bill and Melinda Gates Foundation recently awarded a grant to ILO to create the Microinsurance Innovation Facility, which will provide competitive innovation grants to stimulate ideas and involve new players in providing insurance services.

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 for results**, 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 industrywide reporting ratios and, ultimately, to establish benchmarks.² This work is essential to improve performance reporting and will help shape donors' performance agreements with partners.

1. The term "donors" here refers to bilateral and multilateral agencies, regional development banks, foundations, socially responsible investors, and other organizations that fund microinsurance or design and manage microinsurance programs.

Microinsurance is complex and 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.

WHAT CAN DONORS DO TO EXPAND POOR PEOPLE'S ACCESS TO INSURANCE SERVICES?

There are several ways donors can support microinsurance at each level of the market. However, not every donor can, or should, work on all levels.

Micro level: Support existing retail microinsurance providers

The supply chain for insurance can be categorized by function, in terms of risk carrier, administrator, and delivery channel. Often these tasks are carried out by separate organizations where the *risk* is carried by an insurer; the product is *distributed* by an "agent," which could be a microfinance institution (MFI), cooperative, labor union, nongovernmental organization (NGO), and so forth; and a third-party *administrator* manages the claims process. Donor involvement at the retail level can occur along a continuum of support. Donors should do the following:

- Prioritize work through *formal insurers* or *existing microinsurance institutions*. Donors should not encourage MFIs to bear the risk of providing insurance, because few MFIs have the necessary expertise. IFC, for example, invested in ACCION

Comunitaria del Peru (ACP), the holding company of MiBanco, an MFI that offers insurance products, and Secura, an insurance brokerage firm. In addition to MiBanco, ACP can partner with other MFIs and distribution channels, thus increasing its market share.³

- Carefully *facilitate the entry of commercial insurers* to lower income markets, but do not subsidize something they would have done on their own. Also, provide incentives for insurers to offer more complex products, such as health or crop insurance, that provide greater value for clients.
- Identify and help *develop alternative delivery channels* that will allow insurance providers to reach scale and efficiency. Besides financial service providers, like MFIs and credit unions, donors can help broker partnerships with other intermediaries, including retail stores, cell phone networks, and associations in the informal sector. Donors can help prepare delivery channels to negotiate partnership terms with insurance companies.
- Invest in *market research* that explores demand for a range of financial services, including insurance. For example, *FinScope* household surveys, developed by FinMark Trust in South Africa, have been used to demonstrate the market for insurance services and, as an advocacy tool, to inform regulators. Before funding a microinsurance program, donors should ensure the implementer has assessed client demand and conducted appropriate market research.
- Help *build the capacity of institutions* that provide microinsurance. Make technical assistance available to retail providers for feasibility studies, product development, business planning, operations, pilot roll-outs, marketing, and so forth.

2. For a complete list of indicators, see CGAP Working Group on Microinsurance (2006a).

3. ACP's insurance subsidiary, Protecta, is expected to begin operations at the end of 2007.

Brokerage Networks: An Innovative Approach to Achieving Efficiency and Scale

The Micro Insurance Agency (MIA), a fully owned subsidiary of Opportunity International, is an insurance brokerage network. Established in 2005 with seed capital from donors, MIA provides technical assistance to insurance companies to customize products for low-income consumers; brokers partnerships with a variety of distribution channels, including MFIs, NGOs, retailers, and mutuals; and offers efficient back office administration support to distribution channels. MIA serves over three million clients in 10 countries.

Meso level: Support market infrastructure and public goods

The market infrastructure typically develops organically over time, as providers at the retail level reach a critical mass and start demanding services. However, as markets mature, access to key market infrastructure becomes more important. Donors can help by doing the following:

- Provide support to existing or new *information clearing houses* that track and provide data on the market.
- Promote transparency in the sector by developing *common reporting formats* and *performance benchmarks* appropriate for different business models and products.
- Develop tools to facilitate the work of practitioners, donors, and policy makers, when appropriate. For example, USAID supported the publication of guidelines for market research on the demand for microinsurance (USAID 2006).
- Facilitate *reinsurance solutions* to expand coverage and protect clients; do not directly manage reinsurance for partners.

Macro level: Promote a supportive policy environment

Only donors with the appropriate technical skills (including staff in the field), good retail-level knowledge, strong influencing capacity, and the trust of governments should engage at the macro level.

- Donors have an important role to play in safeguarding consumer interests. They can promote *consumer protection*, including supporting client education and awareness building; fostering greater transparency in insurance premiums, coverage, and claims procedures; and advocating for streamlined consumer recourse mechanisms.
- Donors with adequate know-how may advocate for *regulatory frameworks and supervision* changes to overcome specific obstacles and advise regulators on developing appropriate microinsurance frameworks. For example, the Joint IAIS–CGAP Working Group on Microinsurance is exploring how IAIS Insurance Core Principles—the foundation for all insurance supervision—are compatible with the unique aspects of microinsurance.

RESOURCES

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