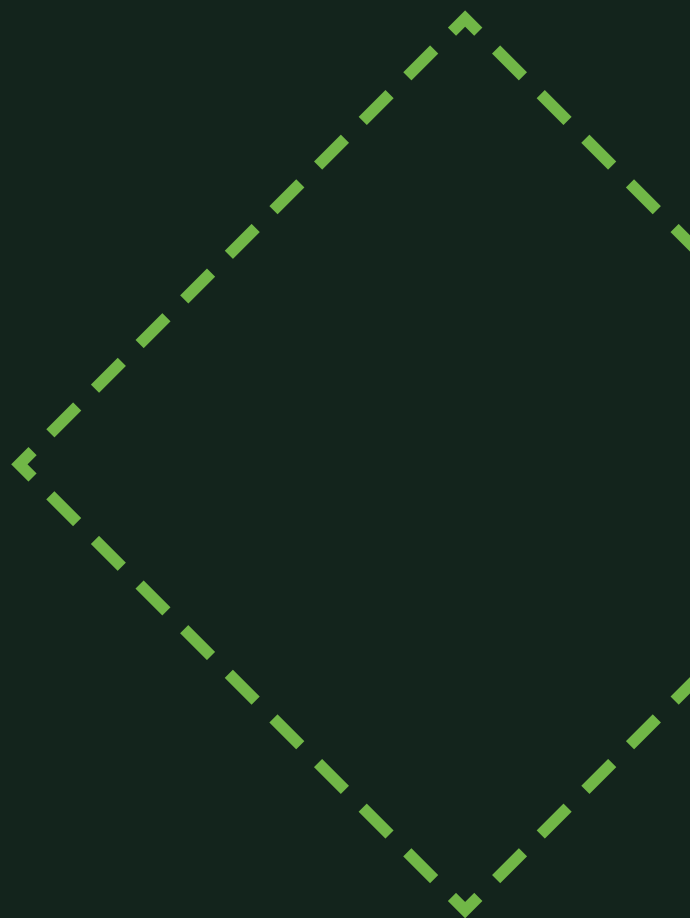

Report

Microinsurance Conference 2005

Making insurance work for the poor: Current practices and lessons learnt

Schloss Hohenkammer,
Munich, Germany
18–20 October 2005

Edited by
Craig Churchill, Dirk Reinhard
and Zahid Qureshi



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Introduction by the organisers

Craig Churchill

ILO, Switzerland

Chair, CGAP Working Group on
Microinsurance

Thomas Loster

Chairman,

Munich Re Foundation

Dirk Reinhard

Vice-Chairman,

Munich Re Foundation

Microinsurance against poverty:

Although the need is great, this instrument has so far been accessible only to a small number of people. Of the four billion people in the world living on less than two dollars a day, only about ten million have access to insurance.

The number of people affected is vast, and it is particularly people from developing countries who are exposed to extreme natural perils.

Intense research into microinsurance operations conducted by the CGAP [Consultative Group to Assist the Poor] Working Group on Micro-insurance has been going on for the past two years, and it is now time to look at the lessons learnt across organisations and reflect on what works and what does not.

From 18 to 20 October, the Munich Re Foundation held the 2005 Micro-insurance Conference 'Making Insurance Work for the Poor: Current Practices and Lessons Learnt'. In cooperation with the CGAP Working Group on Microinsurance, around a hundred selected experts from international organisations, non-government organisations, development-aid organisations and the insurance industry from 24 countries discussed experiences and the challenges of insuring people with low incomes.

The agenda was designed to enable participants to look closely at the 20 'good and bad practices' case studies that the CGAP Micro-insurance Working Group has conducted as well as technical and operational issues in microinsurance. Furthermore, the organisers of the conference wanted to create a platform for discussing the recommendations that are emerging from these experiences – simply to exchange ideas and build up networks. The event also sought to make a contribution to intensifying dialogue and to getting more insurance companies, particularly private ones, on board for this topic.

This report reflects the main points of discussion of six panel sessions as well as the key findings of eight case studies and ten working group sessions. It is not a coherent report as such but rather a summary of the individual podium discussions and working group sessions. The editors have endeavoured to include all points as they were made and not to exclude any opinions. However, in view of the complexity of the topic, we ask for the participants' understanding if any aspects or points are missing.

We would like to thank the participants, speakers, and facilitators who contributed to the panels and a host of case study sessions and working groups. With their enthusiasm and efforts, they were crucial to the success of the conference.

The get-together of specialists at the conference helped clarify and crystallise the pool of knowledge. Overall, the conference underlined the importance of further developing insurance as a key instrument for reducing the vulnerability of the poor. The conference was not a one-off event, but the beginning of a process for the Munich Re Foundation to pursue a long-term plan of action with specific steps designed to achieve results.

Welcome address

Dr. Hans-Jürgen Schinzler
Chairman of the Board
of Trustees of the
Munich Re Foundation

Ladies and gentlemen, dear participants in the first Microinsurance Conference here at Hohenkammer.

It is a pleasure for me to welcome you here at the Akademie Schloss Hohenkammer. As you may know, Munich Re is celebrating its 125th anniversary this year. That's quite an age, but we're still young compared to this castle, which has its origins in the 15th century and was only acquired by Munich Re as a training and conference facility about three years ago. However, I hope this beautiful venue will not distract you from the serious topic you will be discussing during this event. I would like to take this opportunity to thank the CGAP Working Group on Microinsurance and especially its chairman, Craig Churchill, for their invaluable contribution to making this conference happen. Together with the CGAP Working Group, the Munich Re Foundation aims to facilitate the development and exchange of knowledge and experience in the field of microinsurance. And as chairman of the Board of Trustees of the Munich Re Foundation, I sincerely hope that this will be the start of a long and fruitful cooperation in the face of the challenges that lie ahead.

Munich Re Foundation aims to facilitate the development and exchange of knowledge and experience in microinsurance, helping poor people at risk.

Let me briefly touch on the corporate responsibility to which Munich Re responds – as the founder of the Munich Re Foundation and as the world's largest reinsurer. With staff in more than 60 countries, we have become the world's leading risk carrier and financial services provider. Munich Re has been handling global risks for 125 years. A company with so much knowledge has a certain responsibility to share that knowledge. And with the establishment of the Munich Re Foundation in its anniversary year, the company is fulfilling that very responsibility. Following the Foundation's motto 'From Knowledge to Action', we want to use our knowledge to help people at risk – and that includes people in areas in which there is no particular economic interest. This is especially the case with poor people in developing countries.

Reducing poverty is certainly one of the most challenging tasks in the world today. As one of the so-called Millennium Development Goals, the United Nations has pledged to halve the number of people living on less than one dollar a day by 2015. Progress has been made in economic development, for example in South-east Asia. But this is not enough, since current studies come to the conclusion that many of the Millennium Development Goals will most likely not be achieved, especially in Africa. Poverty is a multi-dimensional problem linked to other major challenges of our century. Let me just point out a few of them: firstly, where and how will many people live in the future?

We are now used to reading that the world's population will most likely reach 9 billion in the year 2050. If we look at population development in the past, we may be astonished to see that it took the entire period of history up to 1800 to reach a global population of one billion people. After that, it took only 200 years for the population to increase by a factor of six. And what is more, nearly half of these people live in urban areas today. So it is not just the absolute figure, but also the speed of this tremendous increase which is an extreme problem for local and especially urban authorities that have to adopt their infrastructure to the increasing population. Air pollution and unsafe drinking water seriously affect human health, and again the people worst affected are those who have to live in habitats without appropriate infrastructure. Moreover, many megacities are located in geographical areas with a high risk of natural disasters.



This leads me to the second aspect: As a reinsurance company, Munich Re is certainly very concerned about developments in the environment, one big issue being climate change and its effects, especially major weather-related natural disasters. The United Nations University Institute for Environment and Human Safety warned that in 2010, we must expect there to be 50 million environmental refugees. This year, we have seen the largest number of hurricanes ever recorded in a single year. The absence of disaster-prevention schemes and a lack of awareness are key factors underlying the many catastrophic effects we have seen – not only after the tsunami at the end of 2004. The vulnerability of poor people is extremely high. The knowledge and resources required to take the necessary precautionary measures are scarcely available.

As weather-related natural disasters increase, so does the vulnerability of the poor. We need to build inclusive financial sectors for impoverished communities to help them better cope with risks.

The statistics show that it is mostly the poor who are affected by natural disasters, including earthquakes. Again Africa is an unfortunate role model in this respect. Despite being subject to the lowest number of severe natural disasters compared to other regions, Africa suffers the highest number of casualties and people affected in proportion to population in the world. But as we have also seen recently in the course of Hurricane Katrina, even in the richest country in the world it is mostly the poor that are affected by these severe events. Interestingly, there was a lot of media coverage of this aspect simply because it happened in the United States. But poor people have always suffered in the past and how much attention has that received?

However serious the problem of floods and too much water may be in many regions of the world, just the opposite is an even greater problem. The lack of safe drinking water nowadays affects over one billion people, and about 2.3 billion have no access to appropriate sanitation facilities.

Since many of you are development experts, there is no need for me to go into any more detail about the consequences related to bad health and economic development. I would just like to draw your attention to one aspect and that is education. Professor Wilderer, winner of the Stockholm Water Prize in 2003 – the Nobel prize for water-related issues – said that solving the problem of sanitation does not only involve building sanitation facilities for a city the size of Munich every day until 2015 – we also need the experts to build, operate and maintain these facilities – which is even more of a problem. This one example alone illustrates that financial resources are not the only bottleneck. Intellectual capacity is also a major problem.

Let me come back to Munich Re's core business, which is assessing risks and providing sophisticated insurance and financial products. Studies conducted by the United Nations show the enormous need in particular for the basic financial products that have become normal for people in industrialised countries such as savings, credit or insurance. According to the United Nations Capital Development Fund, up to 80% of the 5.1 billion people in developing countries derive their incomes from the informal economy. Of the four billion people who live on less than USD 1,500 a year, only a fraction have access to basic financial services.

Together we should come up with not only studies but also solutions, and turn these solutions into action step by step.

Microinsurance complements credit and savings and can provide a solution for poor people to better cope with their main risk, which is in most cases related to the severe sickness or even death of the person providing the family's income. Access to insurance enables people to look after their farms or concentrate more on developing their businesses while mitigating other risks to life, health, property or the ability to work. The Year of Microcredit 2005 – which should really be called the year of micro-finance, so that it also includes microinsurance – is the United Nations' call to build inclusive financial sectors and strengthen the powerful, but often untapped, entrepreneurial spirit existing in impoverished communities.

What are the challenges of micro-insurance? There are many. Premium income is low and administration costs are relatively high – these are the main reasons why commercial insurers are still reluctant or have not taken more interest in this market. Reaching the people directly is difficult, however. And the benefit of insurance as a means of saving is often misinterpreted since people do not understand why the premium is not reimbursed if no claims are made. Organisational problems need to be solved, such as how to build up the infrastructure and how to reach low-income people, especially the illiterate and persons in remote areas. How can the cost of handling such a large number of small contracts be reduced? Legislation to facilitate the insurance of poor people and to protect them against fraud is also an important issue. In the light of the challenges lying ahead, we strongly believe that only by pulling together, will we – the insurance industry, local NGOs, development agencies and regulatory authorities – be able to provide appropriate solutions that meet the needs of the poor and help them to secure their livelihoods. Munich Re has therefore taken an important step in identifying micro-insurance as a strategic topic for its innovation teams.

I encourage you to come up not only with studies but also with solutions. The Munich Re Foundation will be a reliable partner to facilitate that process.

I would like to thank all of you very much for your efforts and for the time you have taken to prepare this conference with its numerous sessions and for sharing your experiences. I wish you a successful conference and I sincerely hope that you will find solutions to the problems that lie ahead and that together we can turn these solutions into action step by step.

Agenda

Day 1
18 October 2005

11.00–12.30	Registration	
12.30–14.00	Lunch break	
14.00–14.30	Welcome/Orientation	<p><u>Craig Churchill</u> International Labour Organization (ILO), Switzerland</p> <p><u>Thomas Loster</u> Munich Re Foundation, Germany</p>
14.30–16.00	Panel 1 Understanding and responding to risk and vulnerability	<p><u>Christian Lahnstein</u> Munich Re, Germany</p> <p><u>Valerie Kozel</u> World Bank, USA</p> <p><u>Monique Cohen</u> Microfinance Opportunities, USA</p> <p>Facilitator <u>Ellis Wohlner</u> Consultant to SIDA, Sweden</p>
16.00–16.30	Coffee break	
16.30–18.00	Panel 2 What is microinsurance? Challenges of extending insurance to the low-income market	<p><u>Craig Churchill</u> ILO, Switzerland</p> <p><u>Michael McCord</u> MicroInsurance Centre, USA</p> <p><u>Jean-Louis Bancel</u> International Cooperative and Mutual Insurance Federation (ICMIF), France</p> <p>Facilitator <u>Dirk Reinhard</u> Munich Re Foundation, Germany</p>
19.00–20.00	Dinner	
20.00–22.00	Welcome reception	



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Panel 1

Understanding and responding to risk and vulnerability

Panelists

Christian Lahnstein
Munich Re, Germany

Valerie Kozel
The World Bank, USA

Monique Cohen
Microfinance Opportunities,
USA

Facilitator
Ellis Wohlner
Consultant, Sweden

The poor are not a homogeneous lot. Individuals in the low-income market have needs and preferences that may be as varied as in other segments. Microinsurance product design should reflect this heterogeneity, and premium payments should be tailored to the customer's cash flow. Products should have five key attributes: coverage, accessibility, timeliness, affordability, and value for money.

One thing the poor do have in common is that most of them don't understand the concept of insurance. They are familiar with risk though, and their ways of coping with risk include

- retaining risk (self-insurance);
- sharing risk (informal group-based mechanisms);
- transferring risk (social protection).

Microinsurance is likely to complement, rather than displace, existing ways of coping with risk. Insurance education – to change perceptions and financial practices through knowledge, skills and attitudes – must use local concepts and skills.

A certain level of coordination in poverty-assistance mechanisms is essential, and there is a need to move from protection to prevention.

New directions in Social Risk Management (SRM) include greater focus on natural disasters and political conflicts. Covariate, high-loss events have an enormous impact on the lives of the poor. Some innovative insurance instruments are currently being examined, e.g. index-based weather insurance.

Modern social security has not succeeded for the poor in developing countries, and private insurance is virtually absent from the overall social protection. But the informal economy is the hidden wealth of developing countries; the low-income target market holds great potential for insurers.

Microinsurance is also a huge opportunity for reinsurers in the coming decade. Two of the key questions they need to address are: Can reinsurers insure informal schemes, and to what extent are microsolutions appropriate for coping with natural disasters?

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Opening of the
Microinsurance
Conference 2005

2
Thomas Loster,
Chairman, Munich
Re Foundation

3
Craig Churchill,
ILO, Switzerland;
Chair, CGAP
Working Group on
Microinsurance

4
Monique Cohen,
Microfinance
Opportunities,
USA

5
Left to right:
Valerie Kozel,
The World Bank,
USA; Ellis Wohlner,
Consultant,
Sweden

6
Christian
Lahnstein,
Munich Re,
Germany



For the poor, there is little social security and virtually no private insurance. But the informal economy is the developing countries' hidden wealth, and it is a target market of great potential.



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Craig Churchill,
ILO, Switzerland
8, 9
Some 100 experts
from 25 countries
discussed
the challenges
involved in
providing insur-
ance to people
with low income.
10
Second from left:
Michael McCord,
MicroInsurance
Centre, USA
Second from
right: Jean-Louis
Bancel, ICMIF,
France

Panel 2

What is microinsurance? Challenges of extending insurance to the low-income market

Panelists

Craig Churchill
ILO, Switzerland

Michael McCord
MicroInsurance Centre, USA

Jean-Louis Bancel
ICMIF, France

Facilitator
Dirk Reinhard
Munich Re Foundation,
Germany

Microinsurance, as defined in the preliminary donor guidelines, is 'the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved'. The three words 'low-income people' make a big difference. Microinsurance is one of several risk-management tools available to low-income households.

Janus, the ancient Roman god of doorways and of beginnings is depicted with two faces back to back. Microinsurance, too, has more than one face: a new market for the private sector, and social security to workers in the informal economy and others classed as poor.

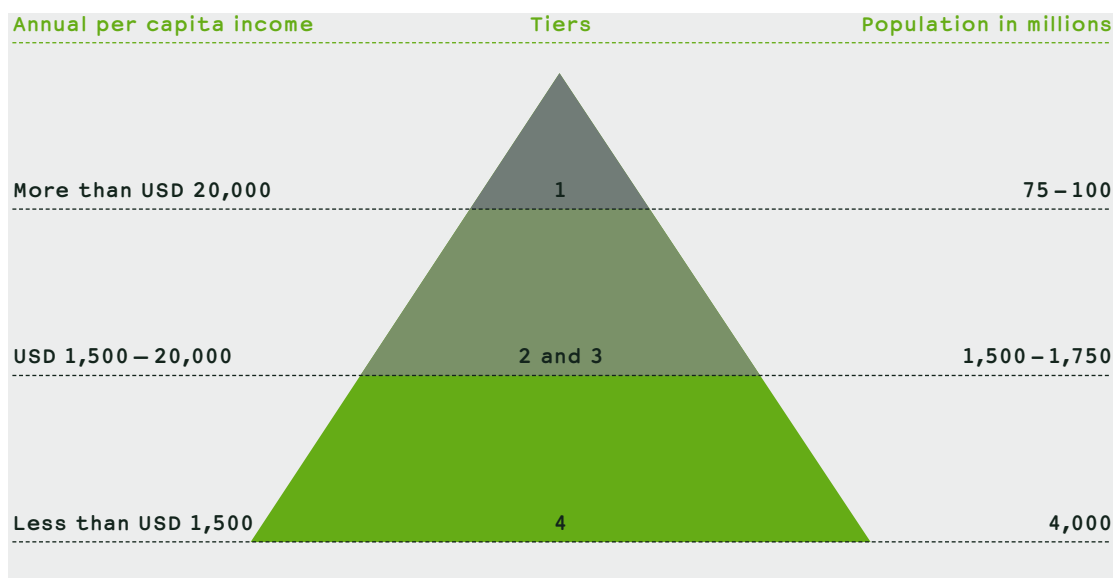
As 'a new market for the private sector' it occupies a place in what author C K Prahalad calls the bottom of the income-pyramid, made up of the poor and low-income households living on less than USD 1,500 a year.

Among the key principles of innovation for this market with enormous potential are that

- conventional wisdom in delivery of products and services has to be challenged;
- significant investment in customer-education is necessary;
- volume is a basis for returns on investment; and
- technology has to be combined with the existing infrastructure.

Social security, collectively, is government policies and programmes to reduce poverty and vulnerability. It diminishes people's exposure to risks and enhances their capacity to protect themselves, such as

- unemployment and disability benefits;
- universal healthcare; and
- old age pension.



The world economic pyramid
Annual per capita income based on purchasing power parity in USD.

Source
C D Prahalad:
Fortune at the Bottom of the Pyramid, 2004 – Data based on UN World Development Reports

Panel 2

What is microinsurance?
Challenges of extending insurance
to the low-income market

We should look to our past and go back to basics. The disadvantaged in developed countries 150 years ago did what the poor in developing countries need to do today: rely on mutuality.

Challenges to the provision of social security to informal and other poor workers include

- no mechanism to systematically reach informal workers – workers are unorganised;
- no employer contribution;
- the poor may not be able to afford the full cost;
- insufficient government resources to cover recurring expenses; and
- inadequate infrastructure to provide appropriate services (e.g. healthcare).

Microinsurance as social security:

- fills the gap to provide coverage to the excluded;
- responds to an urgent need in the absence of formal social security;
- creates delivery mechanisms to extend government programmes (and subsidies) to the informal economy; and
- strives to integrate the informal and the formal.

The ten most important factors that qualify insurance as micro are:

- 1 Relevant to the risks of low-income households
- 2 As inclusive as possible
- 3 Affordable premiums payable in small amounts
- 4 Small benefit amounts
- 5 Clearly defined and simple rules and restrictions
- 6 Easily accessible claims documentation requirements
- 7 Fast payment of benefits
- 8 Specially adapted client education
- 9 Strategies to overcome the wariness of customers
- 10 Microinsurance attitude: help people manage basic risks

Among customers in the low-income market of the informal economy are vendors and small manufacturers. A number of domestic private insurers as well as multinationals such as AIG are already in the market, providing predominantly credit life insurance.

Many countries such as Singapore, Argentina, Canada and Sweden, have well-established and large cooperative insurers owned and controlled jointly by a number of cooperative businesses and organisations. In others, like the United Kingdom, France, Germany, Finland, New Zealand, Costa Rica and South Africa, there are successful and well-run mutual insurers owned by individual policyholders. What cooperative and mutual insurers have in common is democratic control and the interest of owners/policyholders, rather than other shareholders, at heart. This model is recognised as lending itself particularly well to low-income segments of the market.

Some 140 cooperative and mutual insurers in 70 countries are serving low-income as well as higher-end segments of their markets. They are part of a global association called ICMIF (International Cooperative and Mutual Insurance Federation).

There is fertile soil in some intermediate-income countries for schemes to protect the poor against risk, but if the conditions are not right, such microinsurance could turn out to be a white elephant – costly but not altogether useful or wanted.

For a path towards the future, we should look to our past and go back to basics. There is a parallel between conditions that existed in the developed countries a hundred and fifty years ago and how things are in the developing world today. The disadvantaged then relied on the mutual and cooperative culture to meet their insurance and financial needs, and the same culture should now serve as the mainstay of microinsurance development.

A majority of the poor in developing countries are in rural communities, most are involved in agriculture and most have no protection against the risks to their livestock and crops. There are major gaps in micro agricultural covers, and innovative reinsurance approaches are sorely needed to fill them.

Agenda

Day 2/1
19 October 2005

09.00–09.15	Welcome address	<u>Hans-Jürgen Schinzler</u> Chairman of the Supervisory Board of Munich Re, Germany
09.15–10.15	Parallel sessions Case studies	
	Case Study 1 CARD MBA (Philippines)	<u>Michael McCord</u> MicroInsurance Centre, USA
	Case Study 2 ServiPerú (Peru)	<u>Ed Potter</u> The Americas Association of Cooperative/Mutual Insurance Societies (AAC/MIS), USA <u>Karen Schwartz</u> AAC/MIS, USA
	Case Study 3 Yasiru (Sri Lanka)	<u>Gerald Pierik</u> Rabobank Foundation, Netherlands <u>Sven Enarsson</u> Swedish Cooperative Centre (SCC), Sweden
	Case Study 4 Grameen Kalyan (Bangladesh)	<u>Denis Garand</u> Consultant, Canada <u>Mosleh Ahmed</u> Consultant, UK
10.15–10.30	Coffee break	
10.30–12.00	Panel 3 Challenges and strategies to extend health insurance to the poor	<u>Mosleh Ahmed</u> Consultant, UK <u>Ralf Radermacher</u> University of Cologne, Germany <u>Jens Holst</u> Consultant, Germany <u>Klaus Fischer</u> Laval University, Canada Facilitator <u>Christian Jacquier</u> ILO, Switzerland
12.00–13.00	Parallel sessions Case studies	
	Case Study 5 La Equidad (Colombia)	<u>Gloria Almeyda</u> Consultant, USA <u>Ed Potter</u> AAC/MIS, USA <u>Karen Schwartz</u> AAC/MIS, USA
	Case Study 6 Tata AIG (India)	<u>Jim Roth</u> MicroInsurance Centre, UK <u>Vijay Athreya</u> Tata AIG, India
	Case Study 7 Delta Life (Bangladesh)	<u>Adeeba Rahman</u> Delta Life, Bangladesh <u>Craig Churchill</u> ILO, Switzerland
	Case Study 8 AssEF (Benin)	<u>Christine Bockstal</u> ILO, Senegal <u>Janine Agnikpe</u> AssEF, Benin

Parallel sessions Case studies

CARD MBA, Philippines	ServiPerú, Peru
People insured: 600,000	People insured: 6,700
Benefit: Credit life	Benefit: Health and funeral services
Premium range: 1.5% of loan value per year	Premium range: USD 1.43–5.80 per month

Participants

Michael McCord
MicroInsurance Centre,
USA

Ed Potter
AAC/MIS, USA

Karen Schwartz
AAC/MIS, USA

Gerald Pierik
Rabobank Foundation,
Netherlands

Sven Enarsson
SCC, Sweden

Denis Garand
Consultant, Canada

Mosleh Ahmed
Consultant, UK

This case tells the story of a mutual benefit association that was created by a microfinance institution. The MFI nearly went bankrupt by offering insurance without sufficient professional and technical expertise, or as the authors of the case study case explain: 'It is fair to say that CARD MBA ... arose from a severe miscalculation resulting from too much good heart.' CARD MBA (The Center for Agriculture and Rural Development Mutual Benefit Association) offers three products:

- 1 A loan redemption fund, which is essentially credit life except that the sum assured is the disbursed amount rather than the outstanding balance.
- 2 A life insurance product that covers the member (almost all members are women), her spouse and three dependent children under 21 (or if the member is single, she can include her parents).
- 3 A provident fund, which is a long-term savings product without any risk pooling, designed to help members save for retirement. The key to its success is in its intimate relationship with its affiliates in the CARD Mutually Reinforcing Institutions (MRI) system, in particular the CARD Bank and CARD NGO.

The CARD MBA case shows the clear importance of capacity building in local markets. Without the appropriate knowledge, offering insurance may put an entire MFI at risk of bankruptcy.

Originally founded in 1966 as a Peruvian cooperative insurer, ServiPerú was forced to restructure as a cooperative provider of health and funeral services in response to a devastating economic crisis and insurance regulatory changes in the early 1990s. Seeing opportunities in crisis, ServiPerú focused on its strengths. The scheme forged a strategic alliance with an insurer to offer coverage for its Previsión Familiar health and funeral services and also created a subsidiary brokerage firm to manage cooperatives' insurance portfolios.

Working through challenges with unstable client incomes, limited geographic reach and breakeven margins, the company gained experience yielding a number of lessons. These include: Development of multiple strategic alliances with insurers, employers, clinics, and international partners is important. Flexible premium collection methods may increase accessibility. Low premiums can only be achieved by carefully controlling medical/funeral costs and emphasising preventive medicine. Subsidiaries help to leverage administrative and operating costs. Finally, the provision of in-kind services helps to overcome aversion to insurance.



Parallel sessions
Case studies

Yasiru, Sri Lanka

People insured:
9,000

Benefit:
Life, accident, funeral,

Premium range:
USD 1.20–18.00 per year

Grameen Kalyan, Bangladesh

People insured:
117,000

Benefit:
Health

Premium range:
USD 0.88–1.76 per year

Yasiru started in the mid-1990s as an in-house insurance service in a federation of NGOs called ACCDC. In 2000, Yasiru was registered as a special society and ACCDC became its partner for the implementation of the insurance scheme. After a couple of years Yasiru started partnerships with other local NGOs and today it has eight active partners with some 60,000 members.

Yasiru provides its insurance package to more than 9,000 members through its partners. It has accumulated equity and reserves of almost LKR 5 million (USD 50,000). The product covers (for all individual members of a family) death, disability and hospitalisation and has a typical low-income profile. The monthly premiums vary from LKR 10 to 150 (USD 0.1 to 1.5) and the benefits range from LKR 3,000 to 120,000 (USD 30 to 1,200). Since its start, Yasiru has been supported by the Rabobank Group and its reinsurance company, N V Interpolis. Yasiru has received funding, technical assistance and a very favourable reinsurance arrangement.

However, it was agreed to cease the funding by Rabobank from 2005 to encourage the financial independence of the programme. Technical assistance and the reinsurance agreement are continuing as long as needed. During these discussions, the concern was raised that Yasiru – like many other cases – might face problems once the donor support is reduced.

Yasiru’s legal status is unclear. Registered as a society, Yasiru has approached the Registrar of Societies and argued that it be allowed to provide insurance services to members on a mutual basis.

Grameen Kalyan (GK) was launched in 1996 when Grameen Trust handed over ten of its clinics to this newly registered NGO. Membership of its health scheme is open to all Grameen Bank borrowers and their families, as well as to all villagers living within an 8-km radius of a GK health centre. Grameen Kalyan now operates 28 clinics in eight districts in the country. It plays a dual role, that of insurer and direct service provider. Its operational and financial success is due largely to a generous endowment fund, which was provided by its parent company and on which it has earned a good investment return to offset operating losses. It is grappling with a number of serious challenges of providing health insurance, in particular finding the right balance between providing coverage and covering costs. Its strategy of serving the community at large, and charging higher rates from the less poor, has merits as a tool of cross-subsidisation and needs to be explored further.

- 11
Ed Potter,
AAC/MIS, USA
- 12
Sven Enarsson,
SCC, Sweden
- 13
Left to right:
Denis Garand,
Consultant,
Canada;
Mosleh Ahmed,
Consultant, UK



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13

Let us remove barriers among public, private and non-profit subsystems, and coordinate and combine sources for administrative efficiency and better access to healthcare for the poor.



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16

Panel 3

Challenges and strategies to extend health insurance to the poor

Panelists

Mosleh Ahmed
Consultant, UK

Ralf Radermacher
University of Cologne, Germany

Jens Holst
Consultant, Germany

Klaus Fischer
Laval University, Canada

Facilitator
Christian Jacquier
ILO, Switzerland

Health insurance is not only an individual but also a collective risk. It might even be regarded as a fundamental human right. For most of the poorest there is no health insurance and healthcare is an out-of-pocket expense. Health is also one of the more complex insurance lines.

Various schemes have been introduced by governments in developing countries, but not all meet our microinsurance definition criteria. Health coverage for the poor is a focal point for the aid agencies; it is growing fast, but large numbers of the poor are still to be covered. Mali as an example shows that the mutual initiative can, however, serve as a useful complement to the government programme, and mutuals are becoming a partner in the development of local health centres. They have greater muscle to negotiate quality of services with hospitals. However, these initiatives exist on the edge of survival every month. Mutuals need to be integrated into the health system. Left alone, they will die out.

A major challenge is improving the poor's access to care and facilities. There are barriers between various subsystems: public, private and non-profit. There should be a collective effort to see how different sources could be coordinated and combined for administrative efficiency and more effective healthcare.

Micro health insurers should have a partnership with the network of providers. If a customer has no provider nearby, transportation costs should be covered too – along with direct healthcare costs.

The sustainability of micro health insurance schemes is tied to the sustainability of health services. Health services need to be subsidised for the poor, and micro health insurance costs should be included in the overall cost of healthcare.

There is indeed a gap between supply and demand. More and more, micro health insurance is filling this gap. It is important to build on strengths while focusing on weaknesses. A wise strategy is to start with already-existing organisations such as mutuals and cooperatives, and extend them to get stronger community involvement. The key challenge will be to help these organisations establish strategic links with formal insurers, providers and the social security element.

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Christian Jacquier, ILO, Switzerland

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Ralf Radermacher, University of Cologne, Germany

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Conclusions drawn from panel three included lack of financial sustainability as one of the key challenges.

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Mosleh Ahmed, Consultant, UK

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Left to right: Jens Holst, Consultant, Germany; Klaus Fischer, Laval University, Canada



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18

Parallel sessions Case studies

Seguros La Equidad, Colombia

People insured:
28,000

Benefit:
Life and disability

Premium range:
USD 1.00–15.00 per month

Tata AIG, India

People insured:
15,000

Benefit:
Endowment, term life

Premium range:
USD 0.10–0.57 per month

Participants

Gloria Almeyda
Georgetown University/CIED,
USA

Ed Potter
AAC/MIS, USA

Karen Schwartz
AAC/MIS, USA

Jim Roth
MicroInsurance Centre, UK

Vijay Athreya
Tata AIG, India

Craig Churchill
ILO, Switzerland

Christine Bockstal
ILO, Senegal

Janine Agnikpe
AssEF, Benin

La Equidad was created in March 1970 by 45 cooperatives to provide insurance for their members. Besides a broad range of products for the general market, it now offers two group-based microlife insurance products through two partners: an MFI called Women's World Foundation (WWF), and a group of its own affiliated cooperatives. More than 10,000 of WWF's microcredit customers and 18,000 of cooperative members have so far taken up this insurance. Though WWF joined the programme essentially as an agent, La Equidad worked with it as if it were an affiliate, designing a product that responds to the real needs and paying capacity of the insured, rather than maximising returns for shareholders. WWF has since taken an ownership stake in La Equidad.

La Equidad's micro life insurance product is interesting as it provides benefits towards groceries, utilities and education expenses. In addition to these household expenses, Amparar's coverage, according to beneficiaries of claims, contributed to paying other debts and capitalising their microenterprise so they would not lose their main income-generating activity. The insurer has invested in making the partnership with the MFI a success by developing software that will enhance reporting and monitoring for both parties. La Equidad hopes to expand its microinsurance activities by cultivating partnerships with other MFIs as well.

India requires what some other countries only encourage, i.e. that each insurer has a set percentage of its business coming from the rural and social sectors. Tata AIG, in fulfilment of its regulatory obligations to serve the rural and social sectors, is experimenting with new delivery channels. It has introduced so-called microagents (the development of the model was partly financed by a DfID grant). This is an innovative direct-marketing approach that involves assisting hand-picked low-income women to form quasi insurance agencies. Initial results appear promising.

Organisationally, Tata AIG has been clever in pursuing its micro-insurance obligations. It has created a separate rural and social team that is well-funded and has the autonomy to innovate. The insurer offers both term and endowment policies to the low-income market, and the latter seem to be in greater demand than straight term insurance.



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Parallel sessions
Case studies

Delta Life, Bangladesh
People insured: 1,000,000
Benefit: Endowment with profit
Premium range: USD 2 per USD 20 face value per year

AssEF, Benin
People insured: 3,500
Benefit: Health
Premium range: USD 0.75 per month

The 15-year-old Delta Life is serving the low-income market on its own without donor support or technical assistance. A for-profit company listed on the Dhaka Stock Exchange, it is regarded as the 'Grameen Bank of microinsurance', having pioneered a policy that pinpoints specific needs of the poor for credit as well as savings and insurance, all in an uncomplicated endowment package for a 10- or 15-year term. The policies are essentially contractual savings products that will pay a life insurance benefit if the policyholder dies (and the premiums are up to date). The products are well suited for the risk-management needs of the low-income market since they provide life insurance protection while allowing the poor to gradually build up assets; and if there is a need for cash, the policyholder can borrow against the surrender value of the policy – savings, credit and insurance all rolled into one. Operating results, however, show high termination and expense ratios for the products, suggesting that the poor are not getting good value for their money.

AssEF is a mutual microfinance network in Benin with an in-house health insurance scheme, Association d'Entraide des Femmes (AssEF). The network has 27 savings and credit funds and 240 groups serving poor women in the capital city of Cotonou and its outskirts.

A general assembly and a board of directors of 13 women elected by members lead the organisation. It has a voluntary membership. Policyholders prepay premiums into a fund and are entitled to specified benefits. The community plays an important role in the design and running of the programme. A network support organisation provides technical assistance and general oversight, while it negotiates fees with one or more healthcare providers.

Close monitoring and good management have helped the health insurance programme achieve strong growth since it was founded in 2002, and have ensured its sustainability. Even though AssEF is a relatively small scheme, it has proven to be successful so far.

19
Gloria Almeyda,
Consultant, USA,
explains her point
of view during
the session on
the Seguros La
Equidad case
study.

20
Vijay Athreye,
Tata AIG, India

21
Left to right:
Christine
Bockstal, ILO,
Senegal; Janine
Agnikpe, AssEF,
Benin



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Agenda

Day 2/2 19 October 2005

13.00–14.00	Lunch break	
14.00–16.00	Parallel sessions Operations working groups	
	WG 1 Marketing, distribution channels and organisational development	<u>Craig Churchill</u> ILO, Switzerland <u>Monique Cohen</u> Microfinance Opportunities, USA
	WG 2 Premium collection and claims payment: minimising transaction costs and maximising customer service	<u>Richard Leftley</u> Opportunity International, UK <u>Ralf Radermacher</u> University of Cologne, Germany
	WG 3 Appropriate product design for the poorest households	<u>Dominic Liber</u> Quindiem, South Africa <u>Jim Roth</u> MicroInsurance Centre, UK
	WG 4 Underwriting and claims	<u>Michael McCord</u> MicroInsurance Centre, USA <u>Dipankar Mahalanobis</u> Microcare, Uganda
	WG 5 Strategies for sustainability	<u>Denis Garand</u> Consultant, Canada <u>Zahid Qureshi</u> (ICMIF), UK
16.00–16.30	Coffee break	
16.30–18.00	Panel 4 Role of insurers, reinsurers and technical assistance providers	<u>Annette Houtekamer</u> Interpolis, Netherlands <u>August Pröbstl</u> Munich Re, Germany <u>Richard Leftley</u> Opportunity International, UK <u>Jean-Bernard Fournier</u> Développement International Desjardins (DID), Canada Facilitator <u>David Dror</u> Erasmus University Rotterdam, Netherlands
20.00–23.00	Dinner	

22
Monique Cohen
presenting
marketing
opportunities
for micro-
insurance.

23
Jim Roth,
MicroInsurance
Centre, UK
24
From left to right:
Ralf Radermacher,
University of
Cologne, Germany;
Richard Leftley,
Opportunity
International, UK



Parallel sessions

Operations working groups

Participants

Craig Churchill
ILO, Switzerland

Monique Cohen
Microfinance Opportunities, USA

Richard Leftley
Opportunity International, UK

Ralf Radermacher
University of Cologne, Germany

Dominic Liber
Quindiem, South Africa

Jim Roth
MicroInsurance Centre, UK

Michael McCord
MicroInsurance Centre, USA

Dipankar Mahalanobis
Microcare, Uganda

Denis Garand
Consultant, Canada

Zahid Qureshi
ICMIF, UK

Among challenges that face micro-insurers, a key one is managing various functions in ways that address the special needs of the low-income market while keeping the cost of conducting business as low as possible. Five working groups examined the major operational issues from this perspective.

Marketing, distribution channels and organisational development

Case studies show that even when the poor do have insurance coverage, they often do not know that they are covered or what is covered or how to claim their benefits. Marketing should not only be aimed at conquering their reluctance to buy, but at relationship-building and good after-sales service. Appropriate brochures, pictorial presentations and Q&A sheets should be provided to the staff. Front-line staff should be trained in the use of local concepts to explain the product in simple terms. Furthermore, loss-prevention campaigns in partnership with collaborating organisations have proven to be an appropriate tool to reduce losses.

For distribution, networks of organisations that already engage in financial transactions with the poor should be used. Organisations other than financial institutions could also be delivery agents. It is important to deliver what the customers want in a way that will reach them. In the Philippines, the SEA (Self-Employment Assistance)-Kaunlaran Integrated Program served hawkers and peddlers successfully by using a few of its clients as agents to ride around on bicycles for collections and disbursements. In organisational development, training of staff, particularly field staff, is the key. For expertise not on hand, outsourcing should be considered. Compensation and incentives that reward client retention, more so than sales, would be appropriate. For microinsurers serving the not-so-poor as well as the poor, a challenge is to ensure that the poor receive enough attention.

Premium collection and claims payment: minimising transaction costs and maximising customer service

Transaction costs, broadly, include everything needed to make a necessary component of insurance happen. They should include both real costs and opportunity costs. Premium has two components: actuarial, to cover a risk; and administrative, to cover transactions. The administrative part offers the better chance of getting the price down.

Payment could be in cash, but there is security risk in money flow. Payment tied to an account is convenient, and so are deductions. Procedures include timing and frequency. Once a year is easy for the insurer, but periodical payments may be more convenient for the client. Also to be considered are place of payment (who comes to whom), grace period, and instalments.

Some microinsurers can use the existing structure of an organisation and accept payment in kind, from producers of a commodity, for example. A trusted structure, ensuring a secure flow of funds, reduces transaction costs in collection. A control mechanism is needed, for where money is found, fraud is not far behind. Proper documentation is the key, and receipts should back registers or computer records.

Claims payment can also be in a cash lump sum, instalments, a deposit into an account, or in-kind benefits such as a funeral service or groceries. In partnerships, allowing the MFI to verify and pay claims reduces transaction time and increases client satisfaction. Staff should be aware of the claims-handling process so that transaction costs are low, and clients should also be aware of 'how it works' so that lack of understanding does not result in dissatisfaction.



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Parallel sessions

Operations working groups

Appropriate product design for the poorest households

Product features to consider include: who should be eligible, terms and payment options, benefits and claims control. Affordability and design go together. Group coverage, which is mostly compulsory, has little adverse selection and involves low acquisition cost. It is generally more appropriate for the poor than individual coverage, which is mostly elective. Furthermore, individual coverage is underwritten case-by-case and has a higher acquisition cost.

Some microinsurers such as CARD MBA offer household covers (quasi group insurance), and others basket coverage, integrating several risk coverages into one product. The choice of benefits should be made on the basis of the most important insurable risks. High-risk persons can be included without requiring additional screening and medical tests by providing smaller benefits for new customers, and increasing the benefits for persons who stay with a microinsurance provider for several years. Product design must be driven by market research (risks and needs, wants and priorities), and be simple (easy for the insurer to explain, and easy for the client to claim with minimal chances of claim rejection).

Underwriting and claims

Operating results of microinsurers studied by the CGAP Working Group on Microinsurance show a wide range of underwriting and claims experience. In ten cases examined, for example, loss ratios varied from 10% to 88%, and expense ratios from 10% to 137%. Underwriting profit is a must for mainstream insurers, but for-the-poor insurers should look for profits mostly from investment income.

Unless backed by the social system of the government, healthcare is difficult to deliver at an affordable cost. An option may be to keep a grant as a reserve fund, and use the investment income to cover administrative costs. Prevention and wellness programmes should be considered a part of underwriting and pricing. A healthcare provider should preferably be within walking or cycling distance of the insured. To reduce administrative costs, coupons should be issued for use to access services. An effective underwriting control would be periodic on-site inspections.

A primary reason for delays in claims payment is the difficulty in obtaining the death certificate. Claims paperwork can be more complex than the benefit amount warrants.

Strategies for sustainability

Insurance is built on a foundation of operational standards and legal requirements that insurance companies disregard at their peril. The CGAP Working Group on Microinsurance Case Study 6 'Lessons learnt the hard way' recounts worst practices among some developing insurers that failed and others that struggled. It also details fundamentals of financial management that would be well worth keeping in mind. Aside from good management, good governance is important.

Insurers have frequently succeeded or failed as a direct result of a choice or decision made by its Board of Directors or Supervisory Board, as it is known in Europe. It is important for microinsurers to know the difference between managing and governing, and technical assistance providers should include governance as a part of the leadership training required. Chapter 4 of Case Study 6 'Lessons Learnt the Hard Way' covers the theoretical basics of governance as well as lessons learnt by some insurers whose Boards ignored these basics and jeopardised their organisations' survival and sustainability.

Conversely, experts working with microinsurance schemes in various countries have come across approaches and solutions that some schemes have used successfully to overcome challenges and become sustainable. These strategies include: limitation of benefits (introduction of caps, and selection of those that are most needed); minimisation of costs (selection of low-cost distribution and premium payment methods, controlling of claims costs); and diversification of income sources (cross-subsidisation from other products or markets, earning investment returns). Strategies for sustainability, from the donors' perspective, should also include policies and programmes that could help make the markets and economic environment for microinsurance more sustainable.

The CGAP Microinsurance Working Group case studies can be downloaded at:
http://www.microfinancegateway.org/resource_centers/insurance/case_studies

A trusted structure, ensuring a secure flow of funds, reduces transaction costs. And client awareness of how claims are handled prevents complaints and dissatisfaction.



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25, 26
Several work-shops took place in the historical renaissance castle Schloss Hohenkammer.

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Dipankar Mahalanobis, Microcare, Uganda

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From left to right: Karen Schwartz, AAC/MIS, USA; Annette Houtekamer, Interpolis, Netherlands

Panel 4

Role of insurers, reinsurers and technical assistance providers

Annette Houtekamer
Interpolis, Netherlands

August Pröbstl
Munich Re, Germany

Richard Leftley
Opportunity International, UK

Jean-Bernard Fournier
DID, Canada

Facilitator
David Dror
Erasmus University Rotterdam,
Netherlands

Insurers, reinsurers and technical assistance providers can help start and establish programmes to increase access to services by the poor. This panel focused on what needs to be done.

The poor have increasing vulnerability to risk and disasters. Microcredit has a ceiling, and mainstream insurance and social security are either too expensive or not available.

Financial systems and risk cultures need integration, and government and private institutions should be repositioned. There should be a joint international effort to upscale microinsurance. The upscaling challenges include a lack of information required for underwriting, and a lack of local insurance expertise and infrastructure. In addition, for the poor the premiums payable have a high opportunity cost, and there is little dialogue with them as potential clients and scheme managers.

Mutual benefit schemes are a perfect match-up of microfinance and culture. They pool whatever ideas there are locally. Mainstream insurers and reinsurers should provide technical assistance and reinsurance – but treat it as a business case and treat them as business partners. Help them become independent by forcing them to stand on their own feet in three to five years.

Insurance is a specialist business, which makes technical assistance (TA) important. The TA providers' job is to realise that they are dealing with local institutions deeply rooted in the community. Keeping the local culture and ways of doing business firmly in mind, they have to help ensure that insurance transactions and interfaces among clients, the insurer and any reinsurer work effectively. They need to adjust the technical role and functions to the local situation without compromising the insurance fundamentals, and enable the local institutions to become professionalised. In that process the TA providers need to ensure that they help contain each transaction cost, so insurance remains affordable for the poor.

The role of the reinsurer is at the end of the value chain of risk and protection.

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David Dror,
Erasmus
University
Rotterdam,
Netherlands

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Jean-Bernard
Fournier, DID,
Canada

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Klaus Fischer,
Laval University,
Canada

32
Fatou Assah,
World Bank, USA

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On the right:
Richard Leftley,
Opportunity
International, UK,
August Pröbstl,
Munich Re,
Germany, and
Annette
Houtekamer,
Interpolis,
Netherlands



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Panel 4

Role of insurers, reinsurers
and technical assistance providers

Mutual benefit schemes should be given technical expertise and reinsurance by the mainstream industry – but such assistance should be treated as a business case, designed to help them become independent in a few years.

A globally acknowledged industry standard is that a reinsurer can accept risk from an insurer only if that insurer is licensed to do business. A reinsurer going into the market must follow the local regulations. The challenge for primary insurers involved in micro-insurance is to enable informal schemes to act formally and deal directly with reinsurers. As things stand, clients (the primary insurers) rarely ask the reinsurers to be involved in microinsurance. If they did, reinsurers would become more active in microinsurance.

Meanwhile, there are steps reinsurers could take to assist, such as:

- development of a common understanding of data needs and then implementing mutual data collection activities;
- technical assistance;
- support of premium calculation;
- organisation of reinsurance capacity;
- provision of risk transfer between regions by means of reinsurance or derivatives;
- incentive-development to reduce disaster risk.

In the Netherlands there is a Micro Insurance Association (MIAN) to focus the industry's attention and take steps to promote and extend insurance for the poor. It aims especially at the development of cooperative structures in developing countries. MIAN works with volunteers recruited with staff from cooperative insurers in the Netherlands. This example could be replicated in many countries throughout the insurance and reinsurance industry and would be an important step in the development of microinsurance.



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Agenda

Day 3 20 October 2005

08.30–09.15	Panel 5 Roundtable on institutional options	<p><u>Michael McCord</u> MicroInsurance Centre, USA</p> <p><u>Richard Leftley</u> Opportunity International, UK</p> <p><u>Bénédicte Fonteneau</u> University of Leuven, Belgium</p> <p><u>Zahid Qureshi</u> ICMIF, UK</p> <p>Facilitator <u>Craig Churchill</u> ILO, Switzerland</p>
09.15–10.45	Parallel sessions Institutional options working groups	
	WG 6 The mutual advantage: Credit unions, cooperatives and insurance	<p><u>Zahid Qureshi</u> ICMIF, UK</p> <p><u>Klaus Fischer</u> Laval University, Canada</p> <p><u>Jean-Bernard Fournier</u> DID, Canada</p>
	WG 7 Partner-agent	<p><u>Michael McCord</u> MicroInsurance Centre, USA</p> <p><u>Agnes Chakonta</u> Madison Insurance, Zambia</p>
	WG 8 Community-based	<p><u>Bruno Galland</u> CIDR, France</p> <p><u>Bénédicte Fonteneau</u> University of Leuven, Belgium</p>
	WG 9 Alternative approaches	<p><u>Richard Leftley</u> Opportunity International, UK</p> <p><u>Jim Roth</u> MicroInsurance Centre, UK</p>
	WG 10 Performance benchmarking	<p><u>Denis Garand</u> Consultant, Canada</p> <p><u>Ellis Wohlner</u> Consultant to SIDA, Sweden</p>
10.45–11.15	Coffee break	
11.15–12.45	Panel 6 Role of regulators, governments and donors	<p><u>Jeremy Leach</u> Finmark Trust, South Africa</p> <p><u>Rudiger Krech</u> Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), Germany</p> <p><u>Alexia Latortue</u> CGAP, France</p> <p>Facilitator <u>Gabriele Ramm</u> Adviser to GTZ, Germany</p>
12.45–13.00	Wrap-up and closing remarks	<p><u>Craig Churchill</u> ILO, Switzerland</p> <p><u>Dirk Reinhard</u> Munich Re Foundation, Germany</p>
	End of conference	
13.00–14.00	Lunch	
14.00–17.30	Meeting of the CGAP Working Group on Microinsurance	

Panel 5

Roundtable on institutional options

Panelists

Michael McCord
MicroInsurance Centre, USA

Richard Leftley
Opportunity International, UK

Bénédicte Fonteneau
University of Leuven, Belgium

Zahid Qureshi
ICMIF, UK

Facilitator
Craig Churchill
ILO, Switzerland

To set up and operate micro-insurance programmes, entrepreneurs – whether micro or macro, individuals or groups, private or public – mainly have four institutional models to choose from. A roundtable and parallel sessions took a close look at each model.

Participants parallel sessions

Klaus Fischer
Laval University, Canada

Zahid Qureshi
ICMIF, UK

Jean-Bernard Fournier
DID, Canada

Michael McCord
MicroInsurance Centre, USA

Agnes Chakonta
Madison Insurance, Zambia

Bruno Galland
CIDR, France

Bénédicte Fonteneau
University of Leuven, Belgium

Richard Leftley
Opportunity International, UK

Jim Roth
MicroInsurance Centre, UK

Denis Garand
Consultant, Canada

Ellis Wohlner
Consultant, Sweden

34, 37
Panel 5 opens the discussion on institutional options.

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Bénédicte Fonteneau, University of Leuven, Belgium

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Left to right: Zahid Qureshi, ICMIF, UK; Klaus Fischer, Laval University, Canada; Jean-Bernard Fournier, DID, Canada

38
Left to right: Michael McCord, MicroInsurance Centre, USA; Richard Leftley, Opportunity International, UK



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Parallel sessions

Partner-agent model

Considered by many experts to be the most appropriate way to overcome the problems of starting a microinsurance programme, the partner-agent model involves an established insurance company working with an agent institution – microfinance (MFI) or other – that is actively serving low-income clients.

The insurance company maintains the reserves, sets premiums, supervises claims and manages compliance with regulatory requirements. The MFIs as the agent institution facilitates the rational transfer of risk, resources and expertise between the informal and formal sectors. Their key priority should be training staff to explain insurance in ways the illiterate poor can understand.

The partner-agent model is a ‘win-win-win’ arrangement. The insurer is able to reach a market (through the MFI) that it cannot reach on its own; the MFI can provide members with better services at lower risk; and low-income households get valuable protection that would otherwise not be accessible to them.

While the partnership model eliminates most regulatory complications, frequently the distribution channel must still be licensed as an agent. Where warranted, some flexibility on the part of regulators and supervisors could facilitate partner-agent relationships.

Lessons learnt

In Zambia, Madison Insurance, with both life and non-life licences, partners with four MFIs to insure roughly 100,000 lives. Notable in this case is that one MFI has a profit-sharing arrangement with Madison instead of a commission.

Important changes due to insurance:

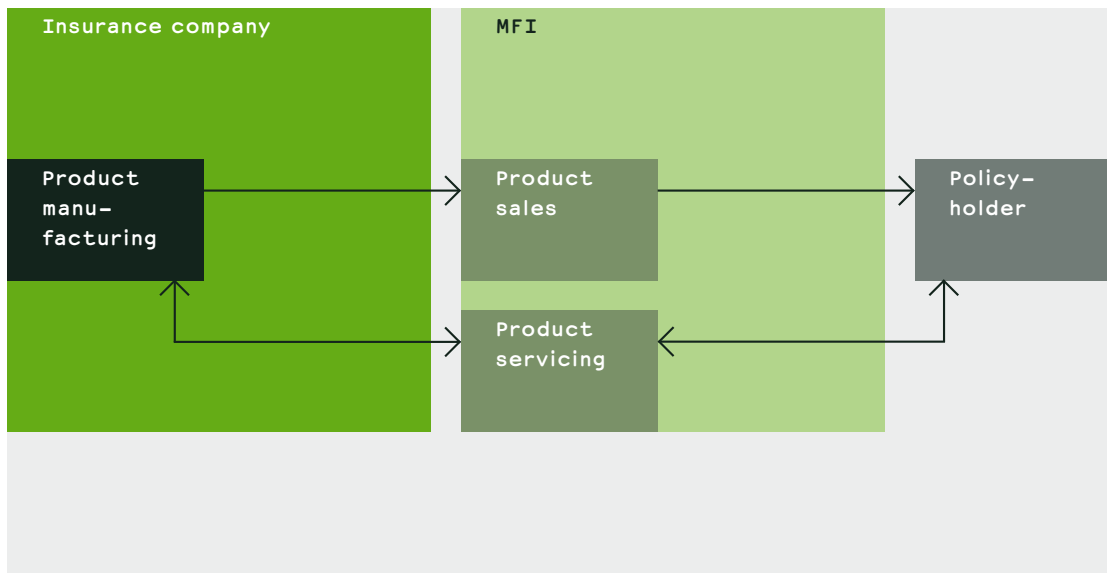
Better client acceptance: There seems to be more acceptance among borrowers of members suspected of being HIV-positive (before insurance, the group’s lending methodology screened out potential borrowers suspected of being HIV-positive).

Less concern: Group members are now less concerned about excluding members who might be HIV-positive as long as they appear physically healthy. In the past the mutual guarantee required group members to be responsible for outstanding loan balances if a member died, and for late loan payments due to sickness.

Generally, the case studies of this model revealed: There is a need for more or better training for field staff in the MFIs (this results in better client management and conviction).

Partner agent model

The partner-agent model involves an established insurance company working with an agent institution – microfinance (MFI) or other – that is actively serving low-income clients.



The mutual advantage: Credit unions and cooperative/ mutual insurers

Savings and credit cooperatives, or credit unions as they are called in many countries, often offer loan protection insurance. This insurance, usually referred to as credit life – ensures that ‘the debt dies with the debtor’, so that an unpaid loan balance does not adversely affect either the surviving family or the institution that granted the loan.

Credit unions also offer life savings coverage to stimulate saving, and some provide housing or funeral insurance, disability, health and in a few cases even casualty insurance. These products are added onto existing credit and savings services. Many are provided informally – although in some countries they are legally recognised as member-benefit products.

In addition to this scheme, mutual institutions can provide micro-insurance services as stand-alone enterprises or through networks of insurance associations providing a variety of products, including in at least one country, Mexico, crop insurance.

The seemingly small way in which cooperative insurance differs from the partner-agent model – the agent’s stake in the insurer – has in practice made a big difference in complying with the spirit of microinsurance. The stake or ownership – that is, shareholding – gives the agent institution a say in the design and running of not only the insurance programme but also in the democratically operated partner insurer itself, ensuring that it remains responsive to clients’ needs and interest.

The mutuality model is in line with the advice of former World Bank President James Wolfensohn that development must not be done to the poor but by them.

Lessons learnt

There are two models of cooperative/mutual insurance.

First, insurance as a business affiliated to a network – where insurance is a secondary product offered through a network of (usually credit and loan) cooperatives:

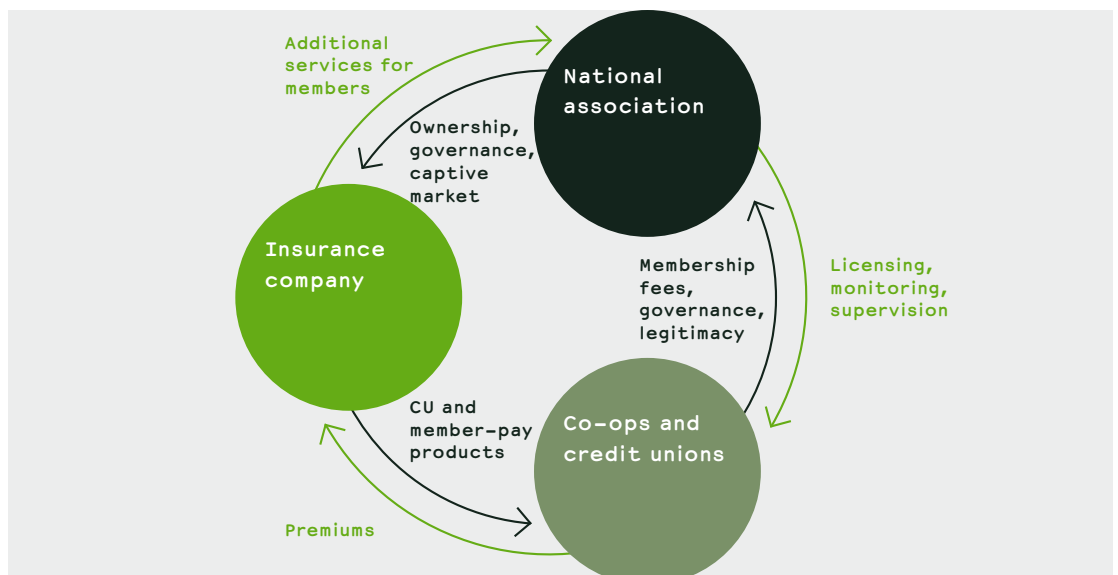
- Insurance products are tied to the co-ops’ core business.
- Success of insurance depends on support of the network.
- Belonging to the network facilitates premium collection.
- It is cost-effective.
- Insurance products should be simple, and marketing and sales should be monitored by the insurer.

The second model is a network of insurance mutuals developed solely to provide insurance, particularly health insurance. At the micro level, the viability of this model has not yet been established, but it

- has a huge growth potential,
- creates mechanisms to make the local community participation effective.

Credit unions and cooperative/mutual insurers

Savings and credit cooperatives, or credit unions as they are called in many countries, often offer insurance to their members.



Direct sales model

This involves an insurance company serving low-income policyholders through individual agents that are on salary or commission, or both.

Insurance companies can succeed in reaching the low-income market directly. Direct selling helps overcome some of the problems in the partner-agent and credit union models, where some insurers may not have good control over their distribution channels and may be separated from the market segment.

Nevertheless, this advantage to an institution may come with higher costs of a new delivery structure that only serves an insurance function (whereas the other models involve building on a delivery structure that already exists for savings and credit, so additional transaction costs for insurance are minimal).

Lessons learnt

The joint venture Tata AIG in India and Delta Life of Bangladesh are examples of the direct sales model.

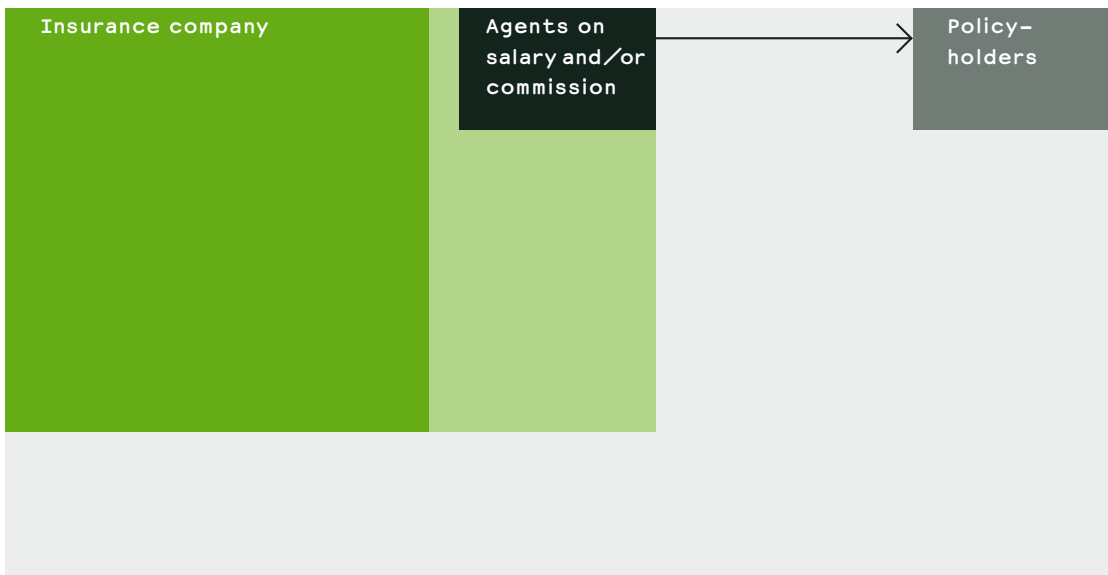
Tata AIG introduced microagents as a new delivery channel (see page 14), and Delta Life pioneered a policy that pinpoints specific needs of the poor for credit as well as savings and insurance (see page 15).

Five main institutional lessons can be drawn from these two case studies:

- the start-up of microinsurance should be cross-subsidised;
- it is important to manage microinsurance with the same business approach as traditional insurance;
- each party involved needs to focus on core competencies;
- a good management information system for large volumes of small policies has to be developed;
- internal controls (where money is involved, fraud will not be too far behind) have to be implemented.

Direct sales model

This involves an insurance company serving low-income policyholders through individual agents that are on salary or commission, or both.



Community-based model

In sub-Saharan African countries, where up to 90% of working people have informal employment lacking even the most basic social protection, communities of poor people have been banding together to create micro health insurance schemes. The schemes are non-profit in character and have a voluntary membership. Policyholders prepay premiums into a fund and are entitled to specified benefits.

The community plays an important role in the design and running of the programme. A network support organisation provides training, technical assistance and general oversight, develops insurance products, negotiates service contracts with one or more healthcare providers and supports creation of new institutions.

Though mutual in character and thus owned and governed by their members, community-based health insurance associations – mutuelles de santé – are also operationally different from microinsurers in the credit union and cooperative/mutual category. There are an estimated 300 such schemes in West Africa and according to ILO's STEP-Programmes almost doubling in number each year.

Lessons learnt

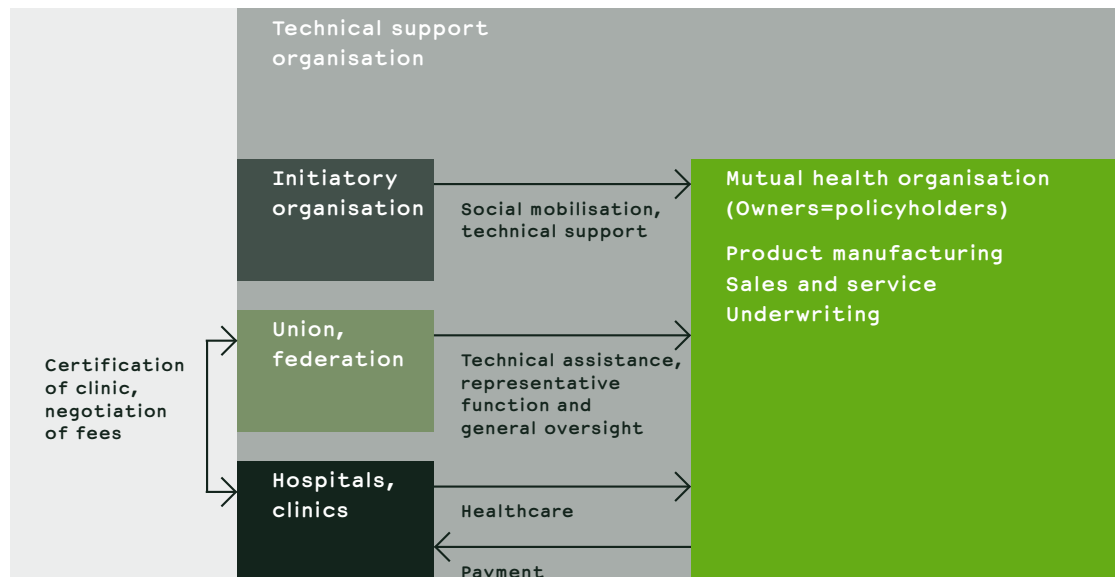
Experience in promoting community-based mutual health organisations in Benin (see page 15), Guinea, Kenya, Mali, Senegal and Tanzania have shown:

- Premium payment and membership levels for microinsurance institutions are low.
- The quality of governance – partly dependent upon the regulatory framework - is a determining factor for membership.
- The need is to increase the technical, financial and social performances of these organisations.
- There is an unequal power balance between the mutual health organisations and the health providers.
- Self-management and voluntary work have their limits.
- The diversity of actors involved contributes to the complexity of the setting.

- Members' health-seeking behavior is complex, the value of insurance coverage and the quality of health-care supply can be very variable.
- Carefully designed network support organisations will solve many of these problems and improve the potential for scaling up to large numbers without losing the advantage of smallness and user control. It is worth supporting these apex organisations as they can improve overall performance dramatically both in terms of quality and numbers.

Community-based model

A network support organisation provides training, technical assistance and general oversight, develops insurance products, negotiates service contracts with one or more healthcare providers and supports creation of new institutions.



Alternative approaches and performance benchmarking

Alternative approaches

Insurance is a low-cost, high-volume business. A microinsurer must keep down the cost of sales and servicing: provider transaction costs AND client transaction costs. Besides the four institutional models discussed above, there are other approaches that warrant consideration, such as:

- An MFI partner with an insurance policy linked to savings.
- Microinsurance agency/brokerage firms, which can serve a large number of clients, accessing a range of products from a range of insurers.
- Protected cell company.
A registered company rents out its capital, licence and reinsurance. The MFI is responsible for product features and pricing, retaining both losses and profits. It is a form of the partner-agent model but the other extreme of outsourcing.
- Microinsurance is linked to another good or service, for example in India property insurance bundled with cell phones.

Performance benchmarking

Microinsurance around the world is still in the early stages of development. The main challenges still remain

- finding economical solutions for distribution, premium collection, claims settlement;
- access to quality service providers;
- affordable healthcare;
- relevant product design;
- accurate pricing;
- sound financial and risk management; and
- enabling policy.

Standards and indicators are expected to boost microinsurance development. They should enable benchmarking of microinsurers relative to peers, provide a framework and guide for development and business planning, and increase chances of a programme's long-term sustainability.

The working group is reviewing a proposed set of standards and indicators in the following eight categories:

- Risk management
- Operations management
- Investment management
- Organisational structure
- Marketing and distribution
- Financial management and viability
- Economics and client value
- Impact and community outreach

The details of the standards and indicators will be released in 2006. It was agreed that there is a need to collaborate on developing the methodology for measuring performance standards and indicators, and then creating a central depository. Having the indicators will be useful to measure the success of a microinsurance programme and should result in improved performance. This is something that should be developed at the international level; receiving approval for use by the CGAP Working Group would be useful. Developing transparency on performance is also a necessary part of benchmarking. The results should be published annually by the Working Group.



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Panel 6

Role of regulators, government and donors

Panelists

Jeremy Leach
Finmark Trust, South Africa

Rudiger Krech
GTZ, Germany

Alexia Latortue
CGAP, France

Gabriele Ramm
Adviser to GTZ, Germany

Regulatory obstacles that prevent insurers from reaching the low-income market call for new and alternative approaches. Policymakers in government can also do a range of things to ensure that low-income households have access to insurance. And donors have a key role in facilitating these efforts as well as supporting microinsurance practitioners. This panel examined the three roles.

Regulators

The financial sector is heavily regulated in most countries; yet regulators now face new questions. For example: how to manage the trade-off between financial stability and societal stability; how to allow space for innovation and experimentation with new forms of insurers, without undermining the system; and how to handle international pressures, such as surveillance of international securities transactions, without damaging local priorities.

For answers, insurers need to understand the demand side of the market. In South Africa, for example, funeral insurance is one of the most important markets, covering ten million adults compared with 13 million in banking. They also need to analyse market structures and identify market failures. This should help them clarify objectives in balancing trade-offs, such as facilitating development of markets but maintaining stability, correcting imperfections and protecting consumers. It is important to analyse the impact on access: Is the regulation inefficient and burdensome, and would it affect the product's affordability, features and service, and consumers' eligibility?

The new environment changes regulators' roles from focusing only on regulation and supervision to leadership, coordination, facilitation and supervision.

Why microinsurance schemes do not succeed or are not sustainable is most likely due to: miscalculation of premiums; product development without expertise in insurance mathematics, quick introduction of ill-prepared products, financial instability, and legal loopholes.

A clear framework is needed to enable large insurers to become more involved in serving the low-income market; small insurers to become increasingly professional (and possibly regulated) and expand; new local microinsurance institutions to take root; and good governance to create and sustain trust in insurance. Trust is hard to build but easy to lose.

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On the left:
Agnes Chakonta,
Madison
Insurance, Zambia

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On the right:
Ellis Wohlner,
Consultant to
SIDA, Sweden

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Bruno Galland,
CIDR, France

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Dominic Liber,
Quindiem, South
Africa

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Jeremy Leach,
Finmark Trust,
South Africa

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Rudiger Krech,
GTZ, Germany,
explaining the
necessity for
a clear legal
framework during
the final panel of
the conference.



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Panel 6
Role of regulators, government
and donors

Government

The role of government is to identify the different roles of multiple stakeholders with different interests, create incentives for business to engage in microinsurance, guarantee a level playing field in the market, and oversee the role of the regulator.

Governments should encourage regulators to bring about improvements. Minimum capital requirements are too high for locally organised microinsurance schemes with a small number of policies. There are no incentives in the regulatory framework for informal insurers to legally provide micro-insurance services. Requirements for agents can be either too lax (anybody can act as an agent) or too restrictive. Semi-formal insurance schemes are not covered by conventional insurance regulations so the policy-holders lack consumer protection. And reinsurance is a serious constraint for microinsurers.

Instruments available to governments for executing this role include

- accreditation systems for insurers;
- supervision of quality management;
- auditing of national schemes;
- assessment of changing needs.



Donors

Key roles of donors are:

- 1 Funding technical assistance, which involves both content and mechanisms. Content comprises client education, market research, feasibility studies, business planning, and operations guidance. Mechanisms include on-site advisers, short-term consultants, management contract, training and study visits.
- 2 Financing mechanisms: fixed assets for start-up, covering operating losses, facilitating reinsurance. Decisions involve the choice of the incentive, for how long and when to exit.
- 3 Advocacy and policy: government advocacy (health, finance and social ministries), obstacles in the regulatory framework, and consumer protection.
- 4 Public goods: monitoring standards and benchmarking, management information systems, data management clearing house, and tools development.



CGAP, a consortium of 31 donor agencies, helps improve donor effectiveness in microfinance through performance-based funding. For microinsurance its Working Group has prepared preliminary donor guidelines, which include 12 recommendations. Early comments on the guidelines suggest that

- the partnership model is not always feasible;
- the criteria for selecting MFIs and countries to work in are not always realistic;
- strict caution against working on regulatory/policy issues may not be warranted; and
- reinsurance is very difficult to obtain.

Much more dissemination is needed: obtaining more feedback (interviews, review of case studies); revising guidelines, incorporating experiences, and focusing more on potential donor contributions, less on models.

Like Janus, the two faces of micro-insurance (public and private) are now back to back looking in opposite directions. They should turn and talk to each other.

We need to take a holistic approach and aim at a conducive environment for microinsurance. If successful schemes are set up, governments and regulators as well as customers are happy.

The preliminary donor guidelines can be downloaded at:
<http://www.microfinancegateway.org/content/article/detail/13836>

45, 46
Alexia Latortue
CGAP, France,
discussing
how donors
can most
effectively
contribute
to the
development
of micro-
insurance.

Governments should encourage regulators to develop a clear framework enabling large insurers to serve the low-income market and small insurers to become professional.



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Middle: Gabriele Ramm, Adviser to GTZ, Germany

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Dirk Reinhard, Munich Re Foundation, Germany, during the closing of the conference

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Left to right: Angelika Boos, Munich Re Foundation, Germany; Constantin Tseretili, Constanta Foundation, Georgia

Participating organisations

The Americas Association of Cooperative and Mutual Insurance Societies - AAC/MIS, USA	Développement International Desjardins (DID), Canada	Opportunity International, UK
Appui au Développement Autonome (ADA), Luxembourg	DKV Seguros, Spain	ProVention Consortium Secretariat, Switzerland
All India Association for Micro Enterprise Development (AIAMED), India	Enterplan, UK	Quindiem Consulting, South Africa
Association d'Entraide des Femmes (AssEF), Benin	Erasmus University, Netherlands	Rabobank Foundation, Netherlands
Bill and Melinda Gates Foundation, USA	Federation of Indian Chambers of Commerce and Industry (FICCI), India	Swedish Cooperative Centre (SCC), Sweden
Belgian Raiffeisen Foundation, BRS, Belgium	FinMark Trust, South Africa	School of Business, Laval University, Canada
Centre D'Innovation Financière (CIF), Burkina Faso	The Global Exchange for Social Investment (GEXSI), Germany	South African Insurance Association (SAIA), South Africa
Catholic University of Leuven, Belgium	Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), Germany	Suramericana SA, Colombia
Consultative Group to Assist the Poor, CGAP, France	Hivos Foundation, Netherlands	Swedish International Development Cooperation Agency (SIDA)
Groupe Associatif, CIDR, France	Hollard Life Insurance, South Africa	Swiss Re, Switzerland
Center for Intercultural Education & Development (CIED)/Georgetown University, USA	International Cooperative and Mutual Insurance Federation (ICMIF), UK	Tata AIG Life Insurance Company Ltd., India
Citigroup, USA	International Fund for Agricultural Development (IFAD), Italy	United Nations University, Germany
Constanta Foundation, Georgia	Insurance Regulatory and Development Authority (IRDA), India	University of Cologne, Germany
	International Institute for Applied Systems Analysis, IIASA, Austria	University of St. Gallen, Switzerland
	International Labour Organization, ILO, Switzerland	The World Bank, USA
	Interpolis, Netherlands	
	International Development Research Centre (IRDC), Canada	
	Juris Benefit Strategies, USA	
	Madison Insurance, Zambia	
	Microcare, Uganda	
	Munich Re, Germany	

Acronyms

ACDC

All Ceylon Community Development Council

CARD

Center for Agriculture and Rural Development, Philippines

DFID

Department for International Development of the United Kingdom

GK

Grameen Kalyan, Bangladesh

LKR

Sri Lanka rupees

MBA

Mutual benefits association

MFI

Microfinance institution

MHO

Mutual health organisation

MIAN

Micro Insurance Association of the Netherlands

MRI

Mutually Reinforcing Institution

NGO

Non-governmental organisation

Q&A

Question and answer

SEA

Self-Employment Assistance

SIDA

Swedish International Development Cooperation Agency

SRM

Social Risk Management

STEP

Strategies and Tools against Social Exclusion and Poverty

TA

Technical assistance

USD

United States dollar

WWF

Women's World Foundation

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Munich Re Foundation
Königinstrasse 107
80802 München, Germany
Letters: 80791 München, Germany
Telephone +49 (0)89/38 91-88 88
Fax +49 (0)89/38 91-7 88 88
info@munichre-foundation.org
www.munichre-foundation.org

Order number
302-05046

Contact

Dirk Reinhard
dreinhard@munichre-foundation.org

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When we look back at this conference
in ten years' time, we will see it
as a milestone in the development
of microinsurance.

Jan Pieter Six
Interpolis, Netherlands

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