MICROINSURANCE

Improving risk management for the poor

N° 2 November 2003

The CGAP Working Group on Microinsurance, comprising of representatives from donors, multilateral agencies, NGOs, private insurance companies and other interested parties, was established in 2001 to promote the development of insurance services for the poor through increased stakeholder coordination and information sharing. Currently chaired by the International Labour Organization (ILO), the Working Group is organised into four subgroups: Operations and Donor Guidelines, Demand, Regulation and Dissemination. To share information about microinsurance initiatives, the Working Group issues this quarterly Newsletter. For more information contact Craig Churchill, churchill@ilo.org.

Operations and Donor Guidelines subgroup: Tries to facilitate the emergence of appropriate insurance products for low-income persons, analysing current practices and improving donor practices in this field. Contact : mjmccord@bellsouth.net

Demand subgroup: Seeks to develop tools that MFIs and other organisations can use to assess the demand for insurance and other risk-managing financial services. Contact : moniquec@microfinanceopportunities.org

Regulation subgroup: Will focus on regulatory issues that affect the development of microinsurance products for the poor.Contact : Svenja.Jungbluth@gtz.de

Dissemination subgroup: Facilitate microinsurance information sharing among the industry, including MFIs, insurance companies, donors and experts. Contact : insurance@microfinance.lu

To receive the coming issues of MICRO**INSURANCE,** please contact insurance@microfinance.lu

Concept

Preliminary Donor Guidelines on Microinsurance

The CGAP Working Group on Microinsurance has recently produced a set of Preliminary Donor Guidelines on Microinsurance. Although microinsurance shares some characteristics with other types of microfinance, it has some fundamentally different features that require a unique set of expertise, not just among practitioners, but also among donors that might want to support the improvement and expansion of microinsurance services. Toward that end, the Working Group felt the need to develop principles that would help donors to improve the efficiency, effectiveness, impact and sustainability of their interventions.

The Preliminary Donor Guidelines are produced as part of a broader project, "Identifying Good and Bad Practices in Microinsurance," funded by SIDA, DFID, GTZ and the ILO. This project will also conduct a series of case studies of microinsurance operations around the world and synthesize the lessons from those case studies into a practitioner-friendly book describing effective means to extend insurance to the poor. In addition, at the end of the two-year project, the Donor Guidelines will be revised to take into account the lessons identified in the field.

These guidelines are for donors who may receive requests to support initiatives in the relatively new field of microinsurance. They steer donors through the decision-making and monitoring process associated with microinsurance project management. As the title implies, the Preliminary Donor Guidelines are a work in progress, as is the practice of microinsurance. For this reason, the guidelines are not intended to promote microinsurance, but to offer a strong note of caution.

Some guidelines seem quite obvious—of course donors should draw on the necessary technical expertise when considering a grant request for a microinsurance project (but do they?). Other guidelines may be controversial, such as the assumption that donors could play a more valuable role by facilitating linkages and sharing knowledge than by providing funds. An important contribution of these guidelines is an attempt to clarify terminology, particularly making a clearer distinction between microinsurance and social protection.

The twelve most critical recommendations presented in the guidelines are as follows:

1) Donor interventions in microinsurance should:

- have a clear, time-bound exit strategy
- be backed up by technical expertise on the part of the donor
- not result in adding insurance risk onto an MFI

2) Donors should not push or encourage institutions to offer microinsurance—the demand for risk protection should come from clients, not from donors.

3) Before supporting microinsurance, donors should ensure that there is sufficient demand for such services. Demand research must consider the different needs and preferences of men and women—gender differences could significantly affect the design of an insurance product.

4) Donors should generally not fund new microinsurance institutions, but rather should encourage existing formal insurers to serve the poor, ideally in partnership with organisations that already have an efficient delivery mechanism to the low-income market, such as microfinance institutions (MFIs). Donors must realise that part-

nerships are a very realistic solution; insurers are much more interested in finding a way to reach the mass low-income market than bankers.

5) Insurance is a different business from microfinance. The risk structures and the required management skills are different. Microfinance institutions considering involvement in microinsurance should realise that:

- Insurance is not a business to move in and out of. Think long-term, more than three years.
- Even when working with an insurer, MFIs have a considerable responsibility to their clients; they must make sure that clients get their due.
- All microinsurance activities must conform to insurance principles.
- Investment of insurance funds into MFI loan portfolios is highly discouraged.

6) Some MFIs simply are not mature enough to offer microinsurance, even in partnership with insurers, and some regulatory structures may preclude such an arrangement. Until more information is available on what makes microinsurers successful, donors should primarily support strong organisations that operate in low-risk environments. At this stage in the development of insurance for the poor, it will not be helpful if microinsurance schemes fail because the institutions were weak or the operating environments were hostile.

7) Donors must coordinate their efforts with the microinsurance activities of other donors, the government's social protection schemes, and initiatives of private sector insurers. The ability of donors to facilitate linkages and share knowledge may be more important than their ability to provide funds.

8) Donors should take care not to limit the initiative of the private sector. Donors should not subsidise something that the private sector is willing to do on its own, nor unfairly subsidise the competition of a private sector initiative.

9) Grants should not cover claims costs. Subsidies for claims encourage microinsurers to subsidise the premium, which is not sustainable (except perhaps with social protection programmes). It can be very difficult to raise premiums once the subsidy is removed.

10) Reinsurance plays an important role in reducing the fragility of small insurance schemes, and reinsurers can play a technical oversight role better than donors. Donors should use caution when supporting schemes that lack reinsurance.

11) Donors should not attempt to in uence insurance policies, such as minimum capital requirements, until there is more experience with microinsurance and it is more widely recognized among insurance supervisory authorities.

12) Donors should closely monitor the performance of microinsurance partners, both MFIs and insurers, through quarterly and annual reports and occasional on-site visits. Close monitoring is recommended because microinsurance is very much in a nascent stage of development. In exchange, donors should compensate partner organisations for the heavy documentation requirements.

As these guidelines are preliminary, the Working Group welcomes feedback on this draft as we move toward a final version of consensus guidelines that have been properly reviewed by the industry at large. Toward that end, please have a look at the full document on www.microfinancegateway.org/microinsurance and send any comments or suggestions that you might have to Craig Churchill, churchill@ilo.org.

Case Study

Microcare: Health Care Financing in Uganda

Context

In 1999, the management of a hospital-based health financing program recognised that affiliation with a single health care provider was not the best way to serve the needs of the low-income market. Outreach was limited by geography and religious preferences. Additionally, the provider had monopolistic control over the market, showing no interest in improving quality or containing costs. Thus, to increase access to health care and promote market competition, the management of the financing scheme left the provider and started its own health insurance project.

This new company, Microcare Ltd, was registered in 2000 as a limited company and started actively recruiting low-income clients in July 2001. The organisation covers in- and out-patient care, diagnostics, most medications, and basic optical and dental (see more detailed product information in the Microinsurance Newsletter No. 1). The initial business plan called for Microcare to partner exclusively with MFIs as a means of reaching its target market, which consisted exclusively of low-income people.

Controls

From its experience with the hospital, management recognised the extreme importance of proper controls. Thus, before it took any premiums, Microcare's first task was to develop a thorough control system. To control access to care, Microcare established its own check-in desks in the reception of each of its preferred providers. Prior to receiving care, clients present their photo identification card to the Microcare clerk who confirms their identity and provides access to each step of the process at the facility. The ID card photo is crosschecked against the client photo retained in the database system's client profile.

After care is provided, the clients return and convey treatment information to the clerk who inputs all information into the system and prints off a promissory note for the hospital. This arrangement creates not only instant information on provided services, but also allows Microcare to compare this official record to the billing done by the hospital. Thus, the system controls for both access and claims. A further advantage is the ability to analyse treatments by facility, physician, and client. This clinical evaluation has helped to improve the quality of care for covered patients. No longer are providers giving expensive and wasteful shotgun treatments, for example. Microcare believes that these controls save the organisation forty percent of the cost of claims due to reduced fraud.

Growth and Expansion

Efforts to sell policies through MFIs proved more problematic than expected. Although there is demand among microfinance clients, Microcare marketers had difficulty developing the level of trust required for success with such sales. The marketers were necessary because MFI staff were not used to sell the products. This split of responsibilities led to inefficient and expensive sales methods and limited uptake by clients.

It became clear that direct involvement from the MFIs was critical. They needed field staff to sell the product, and staff would not sell without management encouragement. Eventually, Microcare convinced one MFI to offer a loan to cover the premium. This payment method generated more clients for Microcare because it both helped the client make the large payment, while creating an incentive for the MFI since it earned income from the loan.

Microcare was also forced to contain growth due to limited capital and lack of reinsurance during the pilot test. The growth constraints pushed Microcare to look elsewhere to limit its risk and generate access for more low-income people. Though it continues to serve MFI clients—and is working on new ways to access them—management has increased the scope of operations. Microcare now provides direct primary care for large companies with low-income workers, health cover to workers through employers, and third-party administration services. Further, it is now taking over a health care scheme in south western Uganda with over 10,000 covered lives, primarily groups of subsistence farming families, students and teachers. By expanding the scope of its activities, Microcare shows that there are numerous ways to deliver microinsurance, while continuing to focus on the low-income market.

Profitability has thus far eluded Microcare, though it is making strong progress. The organisation has always covered claims costs and is trending towards full-cost coverage of operational expenses.

The Future

With almost 8,000 covered lives, Microcare is moving to transform into a regulated insurance company focusing strictly on the low-income market. It plans to obtain an insurance license under current Uganda legislation based on invested capital. In advance of this transformation, the management and board are in the process of searching for new senior management from the insurance industry who will be better able take the company to scale.

Indicators	Jul-Dec 2001	Year 2002	Jan-Jul 2003
Number of organizational partners	6	7	7
Number of insured	796	7,318	7,852
Claims Ratio	71%	70%	77%

For more information on Microcare see
Michael J.McCord and Sylvia Osinde. 'Microcare Ltd.Health Plan (Uganda): Notes from a visit 17-21 June 2002. Nairobi, MicroSave-Africa, 2002.
Or, contact Microcare Management at microcare@africaonline.co.ug

Book review

Making insurance work for microfinance institutions. A Technical guide to developing and delivering microinsurance.
C. Churchill, D. Liber, M.J. McCord, J.Roth. Ilo, 2003

The recent ILO Publication will be a useful guide for microfinance institutions that are considering adding insurance services. This book will guide decision makers through basic insurance principles, needs assessment, product design, pricing, administration of insurance, financial management and operations. The most useful chapter is a guide to the microfinance institution to identify if it has the capacity to enter into insurance.

Various basic insurance products are discussed in enough detail to assist a microfinance institution understand the difference in risk and management between micro-insurance and microfinance. With these basic products the authors explain why these are the most appropriate products for a microfinance institution to offer and suggest that the best course of action is to outsource the risk to an established insurer. Most insurance practitioners would agree with the proposition put forth that an organization should build up its knowledge and capacity in simpler product distribution and administration before introducing more complex products.

"it is important for the MFI to understand the total insurance costs. As a direct insurer, premiums must cover claims and all operational costs." This is a necessary condition to reach viability.

The pleasant presentation style assist the practitioner understand the fundamental concepts. The book has many useful examples imbedded within each chapter, outlines key terms and concepts and provides references for further reading. I would urge all microfinance institutions to use this book as a starting point to understand the management of micro-insurance; this will be a useful tool for the foundation of many partnerships, which may be the first steps to establish micro-insurance companies. Info: www.ilo.org/public/english/employment/finance/training.htm.

Book review by Denis Garand, denis_garand@yahoo.ca

«MicroInsurance, Improving risk management for the poor» is edited by ADA with the support of the Luxembourg Development Cooperation.

Selected Info

Recommended readings

- **Reducing vulnerability : The supply of health microinsurance in East Africa.** McCord, M.J. Osinde, S. MicroSave-Africa. July 2003. This study looks at seven different institutions providing health care coverage. The issues identified are practical issues that can be addressed by any microinsurance activity to improve their potential for sustainability. Info: www.microinsurancecentre.org/index.cfm?fuseaction=resources.documents
- **Reducing vulnerability : The demand of microinsurance.** Cohen, M. Sebstad, J. MicroSave-Africa. March 2003. By exploring the demand for microinsurance in Kenya, Tanzania and Uganda, this paper seeks to understand what people are looking for in microinsurance and how attributes that meet the needs and preferences of the poor can be incorporated into the design of microinsurance products. Info: www.microinsurancecentre.org/index.cfm?fuseaction=resources.documents
- **Innovative financial services for rural India. Monsoon-indexed lending and insurance for smallholders.** Hess, U. Agriculture & Rural Development Working Paper 9. World Bank. July 2003. This paper outlines an integrated crop loan insurance and risk management product for Indian rural finance and agriculture. Info: www.itf-commrisk.org/documents/weather/India.pdf

Training & seminars

- Bankakademie International delivers in November 2003 a course **Making insurance work for MFIs. A course on developing and delivering microinsurance** in **Kampala**, Uganda, especially designed for MFIs managers and based on the ILO training manuel. Info: www.international.bankakademie.de/
- The **National Insurance Academy, Pune, India,** organises a **workshop on microinsurance** on November 10-12, 2003. This programme strives to provide a platform for exchange between the organisations in the social sector and the Indian insurance industry. Info: www.niapune.com
- A **seminar about health mutuals** in development countries, has recently been organized in Brussels to present and analyse the practical experiences of Belgian organisations in this field. Through the discussions, it was clear that health mutuals represent a means to improve access to health care and appear to be an interesting strategy, particularly in a context of democratic imbalance. Considered as an insurance system, health mutuals need to be financially viable and its success might be limited due to non-efficient supply and quality of health care system. For documentation and minutes please contact Kurt Moors, kurt.moors@brs-vzw.be

News from the Working Group

- Regulation sub-group: Study on Regulatory Issues

Having searched intensively for information on the regulation of microinsurance, the sub-group considered necessary to start a research on this topic. The consultant in charge of this research is looking for literature as well as to establish contact with experts of the microinsurance sector and regulatory and supervisory bodies regarding this issue. For any suggestion, please contact wiedmaier-pfister@t-online.de or Svenja.Jungbluth@gtz.de

- Dissemination sub-group

After the launch of MICROINSURANCE, the sub-group is developing a database with basic info about practitioners, such as 'Who is involved? and doing what ?' It seems that more information is available for microinsurance programs related to donor initiatives. Data about insurance companies offering microinsurance (providing products to low-income households) without donor involvement is more difficult to collect. Any information regarding an institution involved in microinsurance might be sent to busse@ilo.org

Product highlight

ICICI Lombard General Insurance conceptualised and modelled the '**rainfall insurance**' policies. The insurance schemes are tailored to provide protection against deficient/excess rainfall and low temperatures to farmers who are not covered by the government's crop-insurance scheme. A pilot program was conducted in July 2003 through KBS Bank, a subsidiary of BASIX, one of Indian's largest MFI, in Mahabubnagar at the eastern end of Andhra Pradesh. The district has experienced three consecutive droughts during the last years.

KBS Bank bought a bulk insurance policy from ICICI Lombard and sold around 250 individual farmer policies for small, medium and large groundnut and castor farmers. Premium rates for groundnut crop are Rs400 (1US$ = Rs. 50) for the small farmers, with a maximum claim of Rs14.000. Medium farmers pay Rs 600, with a maximum of Rs 20.000, and large farmers pay Rs900 for a maximum of Rs30.000. At this pilot stage KBS Bank therefore decided to limit liability per farmer rather than imposing per acre limits to manage overall liability make the scheme easy to understand for farmers. KBS Bank and ICICI Lombard opted for a weighted and capped rainfall index, which means that the maximum rainfall counted per sub-period is limited to 200mm and that more critical periods for plant growth are weighted more heavily than others.

Some advantages of the weather insurance: Coverage for deviation in rainfall index; Compensation for economic losses due to less or more than normal rainfall; Low administration costs; Calculation of rainfall index is objective and transparent; Immediate claim settlements. Moreover, a global reinsurer has agreed to reinsure this rainfall insurance portfolio.

Source: www.worldbank.org and www.atimes.com/atimes/South_Asia/EI12Df01.html

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