Experiences in Micro-Insurance

Report on ProVention Consortium International Workshop
Zurich, 22.October 2004

Executive Summary

The ProVention Consortium organised the international Workshop ‘Experiences in Micro-Insurance’, held in Zurich at the Swiss Federal Institute of Technology (ETH) on October 22, 2004, as part of its on-going work to reduce disaster risk in developing countries through financial risk transfer mechanisms and enhanced private sector participation. Motivated by broad interest from participants at the ProVention conference “Solidarity and Opportunity: The Potential of Insurance for Disaster Risk Management in Developing Countries,” which took place on the preceding day, the Workshop brought together a unique combination of 35 professionals with knowledge, experience and interest in micro-insurance, ranging from global reinsurers to local NGOs.

Participants contributed to the Workshop through discussions of experiences, case studies and research. This report summarises the key issues discussed and salient conclusions of the Workshop. It should be stressed that this report is not intended as a technical document, but rather a reflection of the learning and knowledge-sharing environment of the Workshop, resulting in an overview of current experiences, lessons learned and operational challenges in the field of micro-insurance. The Workshop and thus this report focus on the specific use of micro-insurance within the context of natural disaster risk reduction.

Low income households in developing countries use many informal coping mechanisms to manage risks, but these activities often offer insufficient protection against the financial shocks of large or multiple disasters. Such communities would benefit from financial risk transfer and sharing through insurance. However, it can be a challenge to reach these potential customers and their access to local and global markets generally remains quite limited.

As a tool to manage disasters, micro-insurance is similar to traditional insurance, but the processes of providing these products to low-income households are different. Reaching potential clients in developing and emerging markets, who often lack an understanding of insurance and may be unable to provide sufficient underwriting data, can be challenging. However, a wide spectrum of institutions including governments, commercial (re)insurers, international organisations, micro-finance institutions (MFIs) and NGOs have begun experimenting with ways to provide micro-insurance.

Successful delivery has so far mostly been achieved through partnerships with self-managed community groups. These groups locally pool the risks of poor households, manage client education, marketing and product sales, and administer premium collection and claims payments. Experience has shown that successful micro-insurance must be guided by market demand, with community groups such as mutuals often best poised to capture and understand the needs of its members. Additionally, through self-supervision, community groups can effectively address insurance challenges such as adverse selection and moral hazard.

Micro-insurance provision must be implemented within a broader context of disaster risk reduction, both by linking premium rates with individual levels of risk, as well as through partnerships with community risk management programs and incentives for mitigation. Community groups are again usually best placed to address these issues and can provide the vital link between local risk reduction efforts and commercial insurance provision.

It is thus apparent that partnerships are needed for micro-insurance success. Governments, MFIs, NGOs, community groups, international organisations and the private sector all have a role to play, each contributing their particular capacity and expertise. Partnerships can range from strict contractual agreements to broad cooperative dialogue, so long as all involved understand the objectives and their roles and responsibilities. Building such cooperation is a time-consuming process that requires ongoing dialogue between different stakeholders.

MFIs generally access low income households through community-based savings and credit groups, but often lack the expertise and experience for sound micro-insurance provision. MFIs currently tend to offer micro-insurance bundled with loans and savings, often to protect repayment capacity from the effects of unforeseeable events. This has proven to be an effective but perhaps somewhat limiting method of insurance provision. MFIs are well placed, in partnership with community groups, to research the demand for additional micro-insurance services, including desired coverage limits and willingness to pay. Like MFIs, NGOs generally have solid working relationships with community groups and are motivated by poverty reduction, thus seeing insurance not as a market product but as a way to help the poor. For technically sound and thus sustainable micro-insurance provision, however, MFIs and NGOs need the expertise and financial backing of the insurance sector.

The international community can offer stability and a forum for partner dialogue as micro-insurance schemes are refined and implemented. International organisations often have the resources and technical and operational expertise needed to test pilot projects, gather and disseminate data, and engage partners with both short- and long-term time horizons. These organisations can support governments in building legal and institutional environments for insurance, standardise the language and understanding of insurance concepts, and provide training to fortify local insurance capacity. Additionally, international organisations can help to facilitate links with global markets and (re)insurance firms, which can prove challenging for local organisations to establish independently.

While governments and the international community are starting to appreciate insurance as a way to manage disaster risk more efficiently and provide some social protection for the poor, micro-insurance is not yet mainstreamed as a standard product. Governments must set the regulatory framework for micro-insurance services, especially enabling and supporting the participation of the commercial insurance industry.

The commercial insurance sector can provide the core expertise and financial capacity needed to develop insurance products in developing countries. Business cases for micro-insurance products require hard facts and statistics to allow commercial insurers to analyse business and partnership opportunities, while also providing access to potential clients through partnerships. A key challenge for micro-insurance schemes to gain commercial investment is their small premium volumes. It will likely be necessary to pool multiple micro-insurance schemes to increase their financial attractiveness, as well as diversify the overall portfolio, for global insurance participation.

At the same time, investing in insurance and disaster risk management in developing countries can be mutually beneficial, with the insurance sector gaining access to new markets and opportunities. The experience of Interpolis Re, whose activities with micro-insurance in developing countries is based on historical solidarity with agricultural mutuals, social responsibility and future market considerations, serves as a compelling example of insurance sector participation and investment.

The Workshop concluded with all participants contributing a range of suggestions and ideas for potential next steps to further pursue the micro-insurance for disaster risk management initiative. These include various proposals for case studies and research, development of working groups, better understanding and enabling the roles of MFIs and possible micro-insurance institutions as well as fostering more effective partnerships.

Introduction

Poor households in developing countries are vulnerable to a range of risks such as natural disaster shocks, livelihood losses, health problems, food insecurity and other threats. Such events can result in crises, eroding asset bases and savings, and often destroying previous economic gains. At-risk communities can benefit from micro-insurance products, for which low-income households pay a small premium for limited coverage for specific risks. To date, micro-finance institutions (MFIs) and NGOs have provided a spectrum of financial services to impoverished people including small loans, savings plans and insurance. These products are similar to those offered in more developed markets but their modes of delivery are designed to reach low-income clients. Micro-insurance is of course not a new development, but this report concentrates on its evolving use for natural disaster risk management.

Currently life insurance is the most widely-available and profitable type of micro-insurance in developing countries. Health insurance appears difficult to provide to poor households because of frequent claims and associated high administrative and claims monitoring costs. Property insurance is under exploration, but it is a challenging to establish in developing countries where land rights are sometimes restricted and land ownership is often not clearly defined. Asia and Latin America currently experience the most formal insurance activity, while Africa, with multiple and often overlapping risks like AIDS, political instability, famine, extreme poverty, and natural disasters, can be considered the proving ground for micro-insurance.

Current providers of micro-insurance include stand-alone institutions or partnerships between formal insurance and reinsurance companies, national and local governments, international organisations, MFIs, NGOs and community groups. There are many ways to offer micro-insurance products in developing countries, such as through community-based groups in which the policyholders themselves are owners and managers of the program. Another common way of delivering micro-insurance is through a partner-agency model. In this structure, an agent like an MFI delivers access and services to the costumers, while an insurance company provides financial capacity and technical knowledge to the agent. There are currently over 10,000 MFIs active worldwide which have considerable experience providing financial services including an increasing use of micro-insurance in developing countries.

Micro-insurance clients

Who are the clients? The main potential clients for micro-insurance products are low-income households and businesses in developing countries. Often, as those most responsible for household survival, women are the direct clients. Their most common occupations are individual small-scale business owners (micro-business) and agriculture, often owning some low value business assets, such as weighing scales, vehicles, livestock and some cash.

What do clients demand? Micro-business owners and small farmers, as extensions of the households and families they support, are an important factor in the economic growth of developing countries. The insurable risks of greatest concern for these people are losses of life, property, employment and the associated losses of income. Potential customers demand services to protect them from economic disaster shocks, or any event that causes a sharp increase in expenses and reduces household income. Low-income clients often desire products that can be shared by groups, thus distributing obligations and responsibilities. They also welcome schemes that allow them to pay relatively small premiums on a frequent basis, such as every week. While being actuarially sound, premiums should comprise only a very low percentage of a poor household's income. For example, in the Philippines, the average micro-insurance premium is 0.2% of monthly household income.

Do non-insurance coping mechanisms adequately address needs? Saving money is the leading way that the poor prepare for or cope with emergencies or crises. The capacity to save of course depends on household income. Savings are an effective coping mechanism generally only when income is regular and smooth, and if households have not faced previous cash shortfalls. As such, due to erratic income, savings do not provide optimal risk coverage for the very poor.

Another common coping strategy is to share risk with extended family or fellow community members. To overcome the low market value of their assets and to spread risk more efficiently, the poor often organise themselves into community groups such as cooperatives and mutuals. However, an event such as a major natural disaster can simultaneously affect all members of the group. This covariate risk challenges the effectiveness of spreading the negative impacts of disasters with immediate family members or neighbors.

Savings and community groups provide part of the solution for the poor. These mechanisms, however, appear insufficient to completely shield households from disasters. This suggests a great potential for micro-insurance products, allowing the poor to transfer their risk outside their local communities.

Examples of micro-insurance models

This section discusses four models presented at the Workshop that illustrate how partnerships have addressed the gap between demand and supply for micro-insurance products.

Model 1: Government-initiated scheme[1]

In partnership with UNDP and donor governments, Vietnam recently launched a project to design a natural disaster fund. Per-capita premiums amount to about US$ 70 million annually, with the average household paying US$ 1 per annum. The fund covers disaster claims, offering graduated benefits for households that reduce their risk from natural disasters through structural measures or moving to lower-risk areas. The project started at the community level, as rural farmers expressed the need to manage and transfer disaster risk. In response, the national government enlisted the help of partners to create a federal disaster fund that will eventually be backed by reinsurance. To promote the fund, the program is looking for "champions" to advocate and help develop insurance solutions. Champions in the national government can endorse needed legislation and regulatory frameworks for reinsurance and insurance to function. These champions will persuade national and local governments that household-level risk reduction and risk transfer lowers the public burden of post-disaster financing. The project faces two main challenges: convincing the government and society of the benefits of financial risk transfer, and gaining the interest and involvement of commercial reinsurance. An interesting aspect of this nationwide scheme is the intentional non-use of the term "micro." It is felt that although the services provided to individuals could be labelled as micro-insurance, given the coverage and scale of the scheme, the term "micro" is both inappropriate and may deter the interests of national and global (re)insurers.

[1] This scheme was presented during the micro-insurance breakout session at the ProVention hosted conference "Solidarity and Opportunity: The Potential of Insurance for Disaster Risk Management in Developing Countries" on 21 October, 2004.

Model 2: Reinsurance-initiated scheme

In this model, a reinsurance company enters a partnership with an MFI, NGO, or local insurance company.

Interpolis Re, a subsidiary of the Rabobank Group, is a reinsurance company involved in a number of micro-insurance schemes in developing countries. Driven by corporate social responsibility and historical solidarity with agricultural mutuals in developing countries, Interpolis Re began providing financial and technical assistance to mutual insurance programs in the mid-1990s. Partners in Sri Lanka helped establish an independent mutual insurance company, although local legislation requires that the program be called a mutual benefit program. Since then Interpolis Re has helped establish, technically supported and reinsured micro-insurance programs in various countries.

In India, Interpolis Re uses an agency model with a local NGO, the DHAN Foundation, which among other services helps low-income households organise into community groups for risk management purposes. DHAN currently oversees almost 15,000 community groups, called Kalanjiams, comprised of smaller units of 15 to 20 poor women. Through these units, the DHAN Foundation is able to reach over 250,000 families. To provide insurance for this high volume of low-premium customers, Interpolis Re negotiates with local insurers to develop group policies.

Educating potential clients about basic insurance concepts can be a challenge in developing countries. Customers commonly perceive insurance premiums as a savings mechanism, often assuming they will get their premiums back if they do not make claims. It is important for clients to understand how insurance functions, but education is often challenged by limited literacy among low income households. In response, the DHAN foundation developed street plays to illustrate how micro-insurance schemes help solve problems related to disaster risk. Information shared in this way has proved effective in increasing understanding and demand for micro-insurance products for disaster management.

For smaller schemes, Interpolis Re works with mutual benefits groups. Through these mutuals clients pay an average annual premium of 100 rupees (currently about US$ 2.22) for 10,000 rupees of coverage. Clients are often landless, do not have formal title to the land they utilise or too poor to demand property insurance, so Interpolis Re offers stock insurance for such items as cattle. The reinsurance company is investigating ways to cover crops, but lack of data is a challenge. If Interpolis Re could access meteorological data, local-scale weather-derivatives for agriculture could be offered.

Local insurance companies often need support to improve the efficiency of their services. Interpolis Re is meeting these needs by providing an information backup system, support in writing annual reports and a training program to develop local insurance capacity. Interpolis Re however recognises genuine limitations from a business perspective, such as a lack of short-term profits and high labour intensity.

Model 3: Micro-finance-initiated scheme

Institutions like Opportunity International and FINCA (The Foundation for International Community Assistance) provide micro-finance in developing countries. Micro-finance clients often share the responsibilities of paying interest and re-paying principles of small loans with other group members. Disability or death can prevent group members from making loan payments, while also in some cultures traditionally elaborate funerals can consume the savings and capital of poor households. Such expenses can drive a household further into debt and undermine the ability to participate in community groups that access micro-finance. Therefore, Opportunity International began designing micro-insurance products to meet this demand and to prevent loan default. For a small premium, group members now receive insurance coverage for disability, death and funeral expenses.

Opportunity International pointed out challenges in this model. MFIs are not necessarily experts in designing and providing insurance services but while MFIs may lack the actuarial basis for computing premiums and contributions, they may often still try to offer insurance products. These institutions may attempt to adopt products of formal insurance firms, using copied or adapted premiums and benefits without adjusting these to customer demand in specific markets. Micro-insurance provision by MFIs might not always be feasible because they generally work with a small and geographically-limited risk pool, and they lack reserves and reinsurance. MFIs face high covariate risk with disasters affecting all or many of their clients at the same time. To successfully provide insurance, MFIs must achieve a certain scale in numbers of policies in order to increase stability by reducing variability resulting from covariate shocks to their portfolio. Without insurance partners, MFIs can still have difficulty transferring risk once scale is achieved.

Model 4: NGO-initiated scheme

NGOs such as ActionAid International and the Disaster Mitigation Institute (DMI) are developing insurance products linked with disaster risk reduction in order to contribute to poverty reduction.

ActionAid International assists MFIs serving approximately 10 million families in Bangladesh, about 70% of which are vulnerable to floods and cyclones. MFIs currently have few global finance sponsors and struggle with solvency when disasters occur, specifically with the high frequency and severity of hazard events common in Bangladesh. A further challenge is a lack of self-organised community groups. ActionAid International explained that well-meaning international organisations have essentially crowded out community groups by providing micro-finance schemes that do not involve local stakeholders. The lack of such involvement makes effective provision of micro-insurance difficult.

The NGO DMI in India has involved local stakeholders, and has thus been able to build the trust of their clients. Currently DMI's disaster insurance scheme "Afat Vimo" covers 1,000 households and micro-businesses, with an additional 5,000 scheduled for coverage in the state of Gujarat by the end of 2004. For a one-time premium of roughly US$ 1.20, clients can purchase US$ 1,500 worth of property, livelihood, and life insurance. For an additional US$ 1.50 in premiums, clients can receive extended coverage. Table 1 summarises the approximate premiums and coverage available under Afat Vimo.

Table 1: Afat vimo one-time premiums and coverage

Insurance	Premium	Coverage
Property insurance	US$ 0.50	US$ 800
Livelihood protection (wage replacement)	US$ 0.33	US$ 200
Accident-related life insurance	US$ 0.33	US$ 500
Additional disaster insurance	US$ 1.50	US$ 1,600
Total premiums and coverage	**US$ 2.66**	**US$ 3,100**

DMI reaches its clients through community groups organised to manage the impacts of disasters and helps these groups form local business chambers. Members of the business chambers can access interest-free credit through a revolving fund, and pay a low one-time premium for insurance. The business chambers provide loss prevention services, and clients can additionally receive risk reduction training for a small fee (20 Indian rupees). Customers have expressed satisfaction at DMI's multi-tiered risk reduction scheme. DMI noted, however, that it is difficult to get the private sector involved because Afat Vimo is not designed to generate profit per se; rather the disaster insurance is provided first and foremost to help disaster victims escape poverty.

Challenges

This section outlines the main challenges identified in the Workshop that must be addressed to successfully provide micro-insurance to poor households in developing countries.

Client profile. Insurance providers need to know more about potential clients, their specific risk management needs and the types of products for which they would be willing to pay. Insurance penetration in developing countries is very limited or absent often because formal insurance providers have not found ways to reach potential clients. Furthermore, customers may have difficulty paying premiums in a regular and/or timely manner. If the premium charged for micro-insurance is a significant percentage of the potential client's income, customers may not demand the product. Premiums, while needing to be actuarially sound, must be carefully priced so that they do not compromise the ability of clients to pay for essential items such as food, energy, and shelter. Market research must be conducted to help formal insurers and other partners serve customers efficiently.

Understanding of insurance. Potential micro-insurance clients appear to prefer savings over borrowing as a way to be prepared to cope with emergencies. Potential clients may misperceive that paying a premium is a form of savings, and expect to receive their premium back if a claim is not made within the coverage period. It can be difficult to conduct market research or serve clients' needs if potential clients lack the understanding necessary to articulate their demands for the array of possible insurance products.

Information asymmetries. Formal insurance companies are accustomed to working in well-organised institutional environments with access to literate clients. These clients can provide data and verifiable documentation for underwriting and claims (such as certificates of health or death, or receipts or titles stating value of assets). In contrast, low literacy rates and asymmetric information in developing countries present a major challenge to the functioning of insurance.

Provision through MFIs. Formal insurance and finance institutions vary in structure and required management skills. While MFIs are generally not designed to manage disaster risk, MFIs may still engage in providing coverage for risks they do not understand well or for which little data is available. Such institutions require maturity to provide insurance products and should view provision of micro-insurance as a long-term business commitment, not a market to move in and out of quickly.

Covariate risk. While MFIs tend to provide to small groups in specific geographic areas, a large client pool is needed to spread the covariate risks of natural disasters. Micro-insurance, like all insurance, requires geographic and peril diversification for sustainability.

Social protection or market viable product. A significant challenge facing micro-insurance schemes is the current lack of distinction between these schemes and social protection programs. There is a debate about whether insurance should be directly linked to social protection, or complement social protection through market products. Social protection projects often receive outside subsidies and are motivated by humanitarian ideals that do not necessarily consider economic efficiency. Approaching insurance as a social protection program can relax market discipline. Without market discipline providers can overlook risk management guidelines and client demands, thus resulting in unsustainable business practices.

Regulatory framework. Regulations for micro-insurance currently do not exist in many developing countries. Regulators tend to focus their attention on conventional insurance institutions, which can lead them to set capital requirements too high and place inflexible rules on agents. Policy makers need to obtain a better understanding of the benefits and demands of micro-insurance to promote increased professional, legal and expansive micro-insurance services. Current regulatory structures in some countries also may prevent MFIs from forming partnerships with insurance companies.

Forming partnerships. Institutions providing micro-insurance can clearly benefit from partnerships. Presently these potential partners often lack common platforms, vocabularies, time frames and objectives. For example, the private sector generally pursues profitability, NGOs and governments seek broader social objectives and the international community focuses on areas specific to the development process, such as poverty reduction. The challenge lies in establishing mutual goals and clearly defining appropriate roles for partners. A practical step would be to establish a clear memorandum of understanding among partners that would establish and delineate roles, policies, and procedures.

Applicability of Various Insurance Schemes. Innovative products such as local weather-based derivatives should be further investigated. On the other hand, mechanisms such as catastrophe bonds do not provide an optimal risk transfer solution for the lower intensity and higher frequency risks that tend to repeatedly affect low income households in developing countries.

Opportunities

The Workshop identified opportunities for insurance providers acting alone or in partnerships with national and local governments, international organisations, and civil society. While these opportunities can be exploited both in the short and long-term, all involved must keep a long-term perspective of sustainability and self-sufficiency.

Community groups. MFIs, NGOs, and insurance companies can better reach low income clients and thus lower their transaction costs by working with community groups. Administrative costs are reduced through local handling of marketing and sales, premium collection and claims payments. Benefits for community groups include reduced disaster risk, increased community solidarity and direct influence on products and scheme management. Community groups, often together with MFIs, can perform needs-analyses and awareness campaigns in a variety of ways, including focus group meetings, street plays, and inviting micro-insurance claims recipients to tell others about the benefits of insurance.

Risk reduction. Community groups share the costs of losses suffered by individual members; this encourages collective action and risk reduction activities by all group members. By working with and through community groups, micro-insurance can strengthen the solidarity within communities. Micro-insurance schemes can and should offer premium reductions if clients reduce the vulnerability of insured assets, thus linking directly with the broader agenda of risk reduction. Such graduated benefits also give clients an incentive to stay with a given provider (customer loyalty), with provision through groups allowing members to maintain a sense of ownership of reserved premiums, thus further motivating collective risk reduction through individual action.

Governments. Micro-insurance can transfer some of the public burden of disaster financing to the commercial markets, and should thus be fostered through adequate regulatory frameworks and active government support and participation.

International community. The international community, through aid and development cooperation, shares in part the financial impacts of disasters in developing countries. As such, it is in the interest of the international aid system to invest in disaster risk management in developing countries, which in turn will reduce their own expenditures for post-disaster relief and reconstruction. Risk transfer mechanisms such as micro-insurance could play a key role in international disaster reduction efforts. International organisations can clearly help lay the foundations and form guidelines for partnerships that involve formal insurance and reinsurance. They can provide technical expertise to pilot projects and support market research defining client demands, especially the gender-specific needs and preferences of clients. It is important to encourage already-existing formal and commercial insurers to become engaged, ideally in partnerships with organisations that have created efficient delivery service mechanisms for low-income markets.

Insurance and reinsurance companies. The insurance sector can make its vast experience and expertise available to interested partner organisations. Local agents need to learn about the proper management of reserves and premiums, as well as exposure management. Relatively small investments by the private sector can facilitate greater insurance competence in communities and help improve the risk management capacity of societies, which in turn leads to greater insurability and thus future opportunities in new markets and with new products.

Market-based products. While insurance education is important, micro-insurance opportunities do not create themselves; the demand needs to exist. Experience so far suggests that poor clients are willing to pay more for a better, more tailored service. In contrast to subsidised schemes for social protection, market-viable products may be more expensive. While not only more likely to provide more customised services and superior benefits for clients, market-based products also have greater chances for long-term sustainability and profitability.

Linking Savings, Credit and Insurance. Opportunities exist to link savings, credit and insurance. Insurance premiums can be paid with micro-credit group membership fees. Community groups or mutual benefit groups can deduct premiums from dividends or special accounts which group members replenish. Yet another option is to bundle micro-insurance with savings. In such a packaged service, micro-finance clients agree to receive a slightly lower interest rate for their savings, and the difference is used to pay insurance premiums. A substantial benefit of insurance-savings packages is that it can lower the marginal costs for providing services such as paying premiums and receiving interest payments separately.

Next steps proposed by Workshop participants

Case Studies & Data

- Case studies on the impact of micro-insurance schemes on clients and communities: can the benefits of micro-insurance as a tool of disaster risk reduction be quantified?
- Case studies investigating the efficiency and effectiveness of micro-insurance within the broader agenda of risk reduction. Comparative cost-benefit analyses with facts and statistics.
- Impact assessments of covariate risk on existing micro-insurance schemes, MFIs and community groups, with an additional focus on current and possible coping mechanisms.
- Comparative studies of different micro-insurance schemes.
- Data collection for business plan creation and analysis: premiums, claims, exposure, etc.
- Collection and analysis of data for sound technical underwriting.

Awareness

- Raise awareness of public officials about the potential advantages and benefits of micro-insurance.
- Groom “champions” who advocate for insurance in local and national governments.
- Educate clients about the basic principles of insurance.
- Raise client awareness about diverse micro-insurance products.
- Build capacity through local and national training.

Working Groups

- Create a virtual working group and/or web portal to disseminate information, experiences and data, as a link between different communities.
- Build a “brain trust” to represent institutional interests from various communities involved or interested in micro-insurance. This could be linked to the above virtual group.
- Develop a centre of excellence that systematically processes insurance information and requests, and can possibly act as an informal (or even formal) broker.
- Build local or regional working groups on insurance and disaster risk reduction in general, as possible precursors for insurance-accessing community groups. These would develop and strengthen grassroots insurance innovations to understand and address local needs.
- Share risks with other policy holders. The aggregation of various micro-insurance schemes would enhance diversification and thus reinsurability of the individual schemes.

Micro-Finance Institutions (MFIs) & Micro-Insurance

- Quantify the possible benefits of micro-insurance for MFIs.
- Explore and quantify the advantages and disadvantages of MFIs as micro-insurance providers.
- Encourage governments to acknowledge the benefits of MFIs, and through enabling regulatory environments facilitate the development and support the roles of MFIs.
- Tie micro-insurance funding with overarching poverty reduction, while adhering to market rules of sustainability.
- Design products to include the poorest of the poor.
- Make alternative risk transfer mechanisms available at local level (e.g. weather derivatives).

Partnerships / Stakeholder Involvement

- Encourage governments to promote micro-insurance (e.g. through tax breaks).
- Link governments’ insurance and disaster finance efforts to already established micro-insurance schemes.
- Ensure good governance at all levels (local and national) and within all partner organisations.
- Compare different national regulations for impact analyses on micro-insurance provision, and then optimally clarify national regulations.
- Establish self-sufficient mutual insurance groups who share competencies and best practices to relieve reliance on governments.
- Make long and short-term investments with an eye on long-term sustainability and profitability.
- Link sustainable development and disaster management to insurance.
- Enhance disaster risk reduction in the corporate social responsibility (CSR) agenda. There is a need for current experiences and impacts assessment studies within the CSR context.
- Elaborate and clarify partnerships so that all involved organisations understand objectives, roles and responsibilities.
- Keep the number of partners limited, and the micro-insurance scheme simple.
- Ensure continuity in dialogue between all partners.
- Develop generic road maps for the development and implementation of micro-insurance.
- Better define the role of international finance institutions.
- Evaluate operational policies of partners to identify possible conflicts of interest.

Conclusions

There is an increased awareness among policymakers and practitioners that financial risk transfer mechanisms can help low income households in developing countries break the cycle of poverty. These households are especially vulnerable to the financial shocks caused by natural disasters and other risks. In response, with micro-insurance offering direct access to low income households, numerous initiatives have been established to provide micro-insurance services to these potential clients.

Mutual trust between potential clients and providers plays a central role in the successful provision of micro-insurance services. Community groups can provide an important link between low-income households and insurance providers. By sharing risk information and educating their members on insurance concepts, local demand is better understood. Groups can then collectively self-manage their risks and ensure that members pay premiums, fulfill their financial obligations, and make prudent decisions related to risk management. In this way transaction costs for commercial insurers and reinsurers are lowered. Without the collaboration of community groups, providers of micro-insurance will face challenges in overcoming moral hazard and adverse selection.

Several obstacles add to the challenge of designing a micro-insurance scheme. Micro-insurance is complex and requires technical expertise that many micro-finance organisations, NGOs, community groups and governments in developing countries do not possess. Case studies are necessary to investigate the positive impacts, efficiency and effectiveness of micro-insurance in relation to disaster risk management, as well as for its optimal development for individual community settings. Market research has shown that potential clients are indeed concerned with the quality of micro-insurance services and are generally willing to pay a higher premium for better coverage, but the precise demands vary by community and peril.

Partnerships present one of the most effective ways to offer micro-insurance in developing countries. Potential partners include insurance and reinsurance companies, governments, micro-finance institutions (MFIs), NGOs, and international organisations. Experience indicates that each partner has a specific role to play and stands to benefit from participation. Governments and civil society in particular must lead the way in these partnerships, establishing the regulatory frameworks necessary for insurance provision, and articulating demand for financial risk-transfer services. An appropriate environment will not be created without the political will and donor support to establish micro-insurance structures.

Micro-insurance examples described in the Workshop provide real benefits to poor people and to their societies. Opportunities exist and can be further created and pursued through partnerships. The United Nations has declared 2005 the “International Year of Micro-Credit,“ stressing the importance of financial tools to improve the lives of the poor and enhance economic development.

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