MICROINSURANCE

AN ONLINE SPEAKER'S CORNER DISCUSSION LED BY MICHAEL J. MCCORD AND HOSTED BY microLINKS.ORG

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DAY ONE: PRODUCT DEVELOPMENT

Post By: Michael McCord

Welcome friends and colleagues to Day One of the MicroLinks online discussion on Microinsurance.

On this first day of the forum, we will discuss the role of product development in generating positive outcomes for all parties involved in microinsurance. Success in microinsurance requires a product that effectively mitigates real risks of low-income people at a fair price in an accessible manner. Developing such a product requires extensive consideration of:

- the needs and demands of the potential policyholders
- the supply of microinsurance (formal and informal) within the market
- the risks involved within the market so that pricing can be fair
- the capacity and objectives of the institutions - risk carriers, delivery channels, and other support organizations
- the means of educating the markets to make uptake effective
- the processes that will allow for efficient sales and servicing simplicity at every stage

Although there are some products out there that have clearly resulted from a careful examination of these issues, we see many microinsurance products being "offered" that show:

- little consideration of market needs or demands – credit life is a common product that most MFI clients see as not satisfying their needs
- an inability to accurately assess risk, often leading to (1) excessive premiums yielding consistently very high levels of income as a percentage of premiums (and compared to returns on similar traditional insurance products), or (2) unviable premiums that lead to scheme collapse and loss of limited resources by low-income people.
- lack of effective market and client education. Low renewal rates of many programs suggest a lack of appreciation within the market. Some organizations believe that mandatory insurance products will help to build an "insurance culture". However, in many cases of mandatory microinsurance there seems to be little effective effort to educate the policyholders about the product and/or the importance of insurance.
- limited expansion of product types beyond the basics – products just for clients and not their families, very little availability of quality health microinsurance, few property covers

Microinsurance in this current iteration is still nascent. We need to be working harder to improve access to quality products for the low-income market.

Below are some questions to start off the discussions:

1. Do we agree that these product development requirements are indeed critical to microinsurance success? Are there additional product development considerations not mentioned above?

2. Are there ways that participants have addressed the above noted requirements efficiently, inexpensively, and with good results for all parties? How do we balance the cost and time requirement of R&D with the need to be offering good products from the start?
3. How can we manage premium setting more effectively so that all parties benefit and the low-income market receives a good value proposition?
4. How can we balance product simplicity (simple policy documents and language, claims processes, policy terms, premium collection, …) with the needs for appropriate controls and cost containment?

Discussions on these points as well as other related issues that participants may want to discuss are welcomed. I look forward to a lively and productive forum.

Michael

DAY ONE QUESTION: DAY 1 - PRODUCT DEVELOPMENT

Post By: Felipe Botero

Thank you for sponsoring this forum on Microinsurance...I totally agree with the points that Michael makes in his opening remarks; microinsurance product development must be driven from the demand side and be "needs based". Also, simplicity and consumer education are key in developing this market.

There are two points that I would like to add; product development needs to be done in context for the particular environment and should include active participation and collaboration on the part of regulatory bodies.   This will help insurers develop better products for consumers and regulators to understand better the unique dynamics of Microinsurance vs. Insurance.

The second point is that each product manufacturer needs to make a commitment to evolving their products based on feedback from the marketplace. No one is going to get it perfect the first time and client needs are ever evolving so product development should never be thought of as "once and done".

Felipe Botero, MetLife

RE: MICROINSURANCE: DAY ONE QUESTION: DAY 1 - PRODUCT DEVELOPMENT

Post By: Catherine Johnston

Hi Felipe,
I would really like to know more about the interaction of microinsurance product development and regulators. What does this look like - how and when would regulators be brought into a product development process? What are the issues that you would hope regulators would become more aware of in terms of "micro" insurance vs. insurance?

RE: MICROINSURANCE: DAY ONE QUESTION: DAY 1 - PRODUCT DEVELOPMENT

Post By: Arup Chatterjee

Hello Catherine and Felipe,
This is indeed interesting. There are two schools of thought. While one school is of the view that regulators should allow the insurers to innovate and be less prescriptive; the other school feels that since microinsurance products are for the vulnerable sections of society, they should therefore be closely supervised.

In my opinion where the insurer in question is a licenced insurer, the regulator shouldnot regulate the product feature in terms of pricing and conditions if they are covering small risks. The actuary of the company can be assumed to be responsible for carrying out due diligence. The pricing elements, nevertheless should remain transparent and subject to scrutiny.

The regulator should express concern if the pricing is inappropriate. If premium is too low there is a risk of operations becoming unprofitable thereby leading to insolvency. Alternately, there can be cross-subsidisation which again may be penalising the good behaviour of a segment of the insured who are a better risk. Of course if premium is too high no one would buy.

In case of unlicenced insurers the regulator must see that the products offered are not leading to regulatory arbitrage and the popularity of the schemes is not expanding in a manner which can be detrimental to the ones who are perceived as enjoying some benefits, particularly so, when commercial insurers are not competing in that space. Any failure of such schemes will lead to fingers being pointed at the regulator.

The main challenge lies in terms of distribution cost which is quite significant. Regulators may have to recognise alternate distribution channels and payment and settlements systems which may emerge with advancement of technology. Most of the malpractices are in the area of market conduct where there is the issue of "Over promise and Underdeliver".

The regulator also needs to initiate a insurance literacy campaign and not abdicate this role solely to the insurers and intermediaries. One needs to distinguish between literacy elements and publicity elements of a campaign.

RE: MICROINSURANCE: DAY ONE QUESTION: BARRIERS TO ACCESS

Post By: Rachel Kachaje

Arup et al,

I am probably in the school that allows insurers to innovate but agree with you there is a role for regulators to play in consumer protection and client education.

In terms of product pricing, I wonder how closely regulators should be prescribing either a minimum or maximum. In microfinance, we try to dissuade regulators from imposing interest rate ceilings on credit. So what would be a "soft-touch" approach to pricing of insurance products that would ensure that poor households are not unfairly taken advantage of, yet still allow for insurers to make a decent margin.

Nhu-An

RE: DAY ONE QUESTION: PRODUCT DEVELOPMENT
Post By: Liz Mcguinness

Dear All,

I agree with Felipe that the product development needs to be done in the context of the particular environment. At Microfinance Opportunities we focus on addressing the needs and demand of the potential policyholders. We have found that qualitative research using focus groups and individual interviews can be a quick and relatively inexpensive way to learn about the needs and preferences of potential policyholders. This type of demand research can identify the risks facing low income populations and more importantly highlight how people prioritize the risk in their lives. Understanding potential policyholders' priorities is essential to developing products that will be accepted by the market.

Regards,

Liz McGuinness
Senior Project Manager
Microfinance Opportunities

RE: DAY ONE QUESTION: PRODUCT DEVELOPMENT
Post By: Jim Roth

Liz,
I am curious about how "relatively inexpensive" these needs and demands surveys are. Could you give us a broad sense. For example what would be the ratio of the of the cost of the various studies you have done at MFO to one or more years Gross Written Premiums of some of the surveys you have done.

Regards,
Jim

RE: DAY ONE QUESTION: PRODUCT DEVELOPMENT
Post By: Liz McGuinnes

Dear Jimmy,
The cost of demand studies depends on where you are in the market. Are you entering a new, undeveloped market? Are you doing a client satisfaction study for an existing product? Are you designing a specific product? The cost also depends on whether the study will be a public good or whether it is for an individual insurance company or MFI. If it is a public good, the cost can be dispersed across several MFIs or other interested institutions. Using your salesforce or other staff to undertake the research will lower costs for the MFI but at the risk of biasing the resulting data. We don't usually recommend this approach.

When I speak about "relatively inexpensive" I am also comparing qualitative research to quantitative studies. In general, qualitative work is faster and less expensive than quantitative studies.

Regards,
Liz McGuinness

RE: DAY ONE QUESTION: PRODUCT DEVELOPMENT
Post By: Mariana Torres

Jim
In my experience, using your saleforce for this studies with some questionnaires with some qualitative and quantitative questions that will help you have some inputs in the main needs. After having some informatione organizing some small reunions with your clients, as focus groups, where you can discuss some of the main characteristics of the product you are thinking in develop so that they could give you their imputs, that are the most important of all and that will help us to develp the right product that will help them make front to their needs and that we will not let us to drop by creating new needs to them.

Also we could not forget that the insurer if they are really intrested in the business they could hel us economically in a lot of studies and projects that will help us understand each day better our clients..

RE: DAY ONE QUESTION: PRODUCT DEVELOPMENT
Post By: Jim Roth

I guess I was more interested in costs from the perspective of an insurance company introducing a new product or a new insurance company specialising in microinsurance. I was just trying to get a feel for this because market studies are crucial, the question is how does one do them selling microinsurance products with their thin margins. We need to cut costs so the question is how best to cut those costs at this point.

You mention that one can lower the costs by doing qualitative rather than quantitative work do you have a sense or an example of how the demand estimates actually panned out when qualitative studies were done. Its all a very new field of course so it may be that only time will tell. But any early results on the accuracy of predictions based on qualitative methods.

RE: DAY ONE QUESTION: PRODUCT DEVELOPMENT
Post By: Monique Cohen

I want to pick up on one issue. I think the role of demand research extends beyond assessing what financial risks people face, and how the risks are currently managed. These are key questions that must be posed when entering the market. However, demand research is also important in assessing the desirable attributes of the product. It links into operations in terms of providing valuable information for assessing the timing and frequency of premium payments, determining exclusions that are appropriate to the target population and in designing the claims process and system of payouts. Market research is also important in highlighting the components of transactions costs that policy holders will incur both in paying premiums, making claims and collecting payouts.

Let me also address the issue of financial literacy. Arup makes an important distinction between literacy elements and publicity elements of a campaign. At Microfinance Opportunities we direct a large financial education program (www.globalfinancialeducation.org) and have just completed drafting an insurance education module. It has been an enormous challenge to translate complex issues into ideas that can be understood by people with limited functional literacy and no familiarity with insurance. We are looking for partners to pilot test this draftmodule so please contact me if you are interested.

Monique

RE: MICROINSURANCE: DAY 1 – PRODUCT DEVELOPMENT

Post By: Michael McCord

Greetings, Certainly understanding the market needs and demands is a key component to successful product development. Commonly we will use a combination of qualitative and quantitative market research in the development of the product. Qualitative is used to gain an understanding of the attitudes and needs of low income people. Typically we are looking for information on (1) what financial risks people face, and (2) how the risks are currently managed. This information, best gathered through qualitative research, helps to identify the gaps in people's risk management strategies. From an understanding of the gaps, we can develop a prototype which we then test using quantitative research methods. This helps us to both confirm that we adequately understood the lessons of the qualitative research, and helps to narrow down the components of the product into a more responsive package. Of course all of this must also be considered against the competition (both formal and informal) as well as your own institution's objectives and capacity. Regards,

Michael J. McCord, MicroInsurance Centre

RE: MICROINSURANCE: DAY 1 - PRODUCT DEVELOPMENT

Post By: Mariana Torres

Hello Everyone

I think you´ve brought a lot of important point, or even clue point of teh efficent process of product development, there are a lot of official documents in how to develop a product, but in my experience, when we are talking about microinsurance, we are getting into a different world, that when you try t develop a right product following a process in the office or behind a cimputer, we will never be successful, what we need mostly as an MIF is:

1. To know the needs, the culture and the custom of our segment, of our clients (and this knwoledge from my point of view we are only able to gain it IN THE FIELD, if we do not go out with our sale force and keep personal contact with the clients, we will never understand what do they need an what are they willing to buy or have)

2. To know the insurance general process, their politics, what are they able to do and what not, and giving them the chance to get to know our clients, to go to the field, so they, as experts in the insurance themes, could have the chance of being sensibilize and understand more what we as MIF are asking for our clients.

Sometimes we think that the insurer has the responsability to know everything and the have all the experience to develop a perfect microinsurance product, and the isurer sometimes thinks the MIF could not give any value to the development of this products and they see the MIF only as a channel to get to our clients, and for me this is the first thing we have to change.

We have to become real co partners, where the goal is for both MIF and the insurer, to join forces, so that we will be able to develop products sutupidly simple because that is the clue in microinsurance and also to join forces to make front to authorities and each day make the rules more flexible..

Best Regards
Mariana Torres

RE: MICROINSURANCE : DAY 1 – PRODUCT DEVELOPMENT

Post By: Natarajan Jeyaseelan

Dr.N.Jeyaseelan, 2.10.07
Micro credit/Insurance Consultant,
Madurai, India.

Dear Members,
Greetings. Of course, I too agree that while designing a MI product, we have to study the target group's needs. Here in Tamilnadu, a Micro Health Insurance (MHI) program was started in Mar 2005 after a detailed study about the diseases occurred in target groups and expenses involved and all. The NGO customized a product in association with a mainstream insurer and covered around 6000 members.

During the implementation, the program did not get the client's response, as the clause "Pre-existing diseases" in the product design was not properly understood by the stakeholders / not properly educated even to the clients. Many claims were rejected by the company on the ground that the disease was pre-existing, even though the clients suffered the disease for the first time after the insurance commencement or not even known about the existence of such a disease before its occurrence.

So, care has to be taken in the designing phase, to describe the Product conditions, in very simple terms and more clearly so that a layman can understand the implications.
N.Jeyaseelan

RE: MICROINSURANCE: DAY 1 - PRODUCT DEVELOPMENT

Post By: Michael McCord

Greetings,

USAID AMAP with Microfinance Opportunities and Abt Associates has published the helpful "GUIDELINES FOR MARKET RESEARCH ON THE DEMAND FOR MICROINSURANCE"

This document can be found at: **http://www.microlinks.org/ev_en.php?ID=13729_201&ID2=DO_TOPIC**

Regards, Michael

RE: MICROINSURANCE: DAY 1 - PRODUCT DEVELOPMENT

Post By: Ralf Radermacher

Dear all,
The day 1 on the other side of the world starts when US falls asleep again. Better late than never a small contribution to the discussion.

I think Liz and others are making an important point here: product development according to local needs. Market research is thus an important step. However, market research alone does not make a product well received by the clients. As microinsurance is about rationing benefits, acceptance of the rationining decisions probably increases when clients are involved in rationning-decisions through a transparent process (i.e. from market research to joint decision).

We have field tested a tool in India through which we involved clients in choosing their preferred health insurance benefit package. The tool is called CHAT - Choosing Healthplans All Together. CHAT is a game-like decision-tool designed as a board game in which players use stickers to determine their choices of healthcare benefits within a pre-defined limited "sticker budget" (which we are about to change in a new version being launched soon). The CHAT board, designed like a pie chart, contains as many "slices" as there are benefit types to choose from. In the existing version, there are 10 benefit types (hospitalization, consultation, drugs, tests, indirect costs, preventive care, maternity, medical equipment, dental care and mental health care). Most benefits are offered at 2 different coverage levels (basic - which covers 50% of costs; and high - which covers 100% of costs).

The actuarial costs of each choice are reflected on the CHAT board in the number of stickers needed to "buy" the benefit. Participants can include benefits in their package until they run out of stickers. Selecting high coverage level is possible only when the basic is fully paid first. The game is run in 2 rounds. In the first round, participants choose benefit packages that meet their and their families' needs. In the second round, the entire group, composed of 12-15 individuals, needs to reach consensus on one benefit package for the entire group or the community. After the first round, the participants can validate their choices by checking how well they would be covered under different scenarios that are described in "health event cards" that each player pulls out in turn. So the 1st round of the game plus the validation with health event cards represent a mini-training session necessary to make the participants familiar with the game and understanding the objective before they can work as the group together.

We have meanwhile tested the tool with far more than 2,000 participants in Rajasthan, Maharashtra and Karnataka. The results have been great. Some ofthe analysis is meanwhile published (references below) and we include CHAT as standard tool into the training material the Micro Insurance Academy (MIA) is offering (MIA offers training material for (i) community based microinsurance schemes, (ii) promoter of such schemes, (iii) industry representatives who want to apply a new client driven business approach).

Please check out this 6 minute video about CHAT on our website www.microinsuranceacademy.org.

References to CHAT analysis:
- Dror, D.M., Koren, R., Ost, A., Binnendijk, E., Vellakkal, S., & Danis, M. (2007). Health insurance benefit packages prioritized by low-income clients
in India: Three criteria to estimate effectiveness of choice. Social Science & Medicine, 64(4), 884-896.

- Danis, M., Binnendijk, E., Vellakkal, S., Ost, A., Koren, R., & Dror, D.M. (2007). Eliciting health insurance benefit choices of low-income groups.
Economic and Political Weekly, 42(32).

Best regards
Ralf

RE: MICROINSURANCE: DAY 1 - PRODUCT DEVELOPMENT
Post By: Felipe Botero

One of the critical roles that insurers have played is supporting the accumulation of capital through cash value products and retirement savings products. In my opinion these products provide an alternative for long term capital growth at the individual/family and aggregate level that is not found anywhere else (i.e. Bank savings are principally short term). How important are these products for the Microinsurance industry? Are they viable?
Felipe

RE: MICROINSURANCE: DAY 1 - PRODUCT DEVELOPMENT
Post By: Mariana Torres

Felipe

I think there's a lot we can do in microinsurance, but as we´ve being saying, in our segment, microinsurance needs a lot of education and culture, and for this, we need simple products that will be tangible for the clients so they could see the beneffits of investing in some product that will give them a long term profit... I think the real goal of offering this kind of products is knowing HOW to show the beneffits to our clients

Mariana

RE: MICROINSURANCE: DAY 1 - PRODUCT DEVELOPMENT
Post By: Arup Chatterjee

I agree. Insurance awareness is critical and needs to spread. Only then people can articulate their needs and appropriate products can be designed. Otherwise an important gap will remain unfulfilled.

Arup

RE: MICROINSURANCE: DAY 1 - PRODUCT DEVELOPMENT
Post By: Michael McCord

So what are some practical ways that any of us use or have seen that effectively spreads insurance awareness among the low-income markets?

RE: MICROINSURANCE: DAY 1 - PRODUCT DEVELOPMENT
Post By: Monique Cohen

Lets be careful in using the term ’awareness’. That is only part of financial literacy or education. What I hear here is the need foreducation. That said both can be delivered in a variety of ways, using a range of delivery channels including radio, film/video, campaigns, street theatre and class room meetings. There is also the written media but that depends on the functional literacy levels of the policyholders, current or potential.

The choice of delivery channel is also very country specific and depends on the target population. Another question is should insurance education be delivered as a public good or a private good. This too influences the choice of delivery channels. It would be good to hear from organizations that have done this, what they have done and how effective it has been.
Monique

RE: MICROINSURANCE: DAY 1 - PRODUCT DEVELOPMENT
Post By: Gabrielle Tomchinsky

I believe it was Mariana Torres who mentioned the importance of insurers gaining a better understanding of clients and their needs. Education is needed on all levels and includes insurers, intermediaries and all institutions offering insurance products to their clients.
Education for clients is also very important. But before educating clients we must start where this conversation began today, with designing client driven products.

Gabrielle

RE: MICROINSURANCE: DAY 1 - PRODUCT DEVELOPMENT

Post By: Natarajan Jayaseelan

Dr.N.Jeyaseelan, 3.10.07
Micro credit/Insurance Consultant,
Madurai, INDIA.

Dear Mr.Michael McCord,
For creating the awareness on insurance among the low income people, we adopt the following strategies.
- Distributing the Insurance claims settled benefits to members in federation of SHGs meeting where 30 to 40 leaders from various villages will be there. This will send a positive signal.
- The members who benefited out of insurance claim will be asked to share their experience during the federation meeting, how this insurance claim amount will help out their families.
- Likewise, we identify the people, who suffered a loss by not taking a insurance cover and ask them to share their suffering as not insured.
- After the sharing by community members, NGO staff will explain the terms of the insurance cover in more detail.
This worked well in the field. These kind of peer education has got the good influence over the community.

with regards,

N.Jeyaseelan.

RE: MICROINSURANCE: DAY 1 - PRODUCT DEVELOPMENT

Post By: Mariana Torres

In terms of Life Insurance, what I think are some of the thing that helps spreads the awarness or the education in microinsurance are:

1. Prepare the Front and the Back office
The responsibles of the microinsurance product in the MIF and the insurer should dedicate a great deal of time and budget in this part, if the institution doesn´t believe in the microinsurance products, doesn´t know the main characteristics and the beneffits, we will never going to be able to sell the product
* Being in the field is a MUST, the experts of the product, have to be there, eith the sale force, teaching them how to make front to the clients objections

2. The Efficiency on the claims payments
Do not wait for the beneficary to go an claim the beneffit amount, the MIF should do their best to contact the benefficiary if it has not show up, because we are interested in paying him what he deserves

Once we have the documents to star the claim process, we should pay as quickly as we can, there is where we should involve the insurers, because there are different mechanisms of payments that will help us the benefficiary to receive the paymente to make front to the immediate needs, anbd that creates credibility

3. Marketing
We have to communicate through our sales force, publicity, etc testimonies of benefficiaries as much as we can, it sounds a little bit cold, but we have to loose the fear talking about death, we should be as clear as we can so the client will not be confuse and will appreciate the beneffits, once the client sees the product works the sale is easier

4. Incentives
We HAVE to recognice the sale force work, I think that it doesn't matter that we are talking of compulsory products, there are many ways of motivating the sale force:
economically
*some contests
*diplomas

Mariana

RE: MICROINSURANCE: DAY 1 - PRODUCT DEVELOPMENT
Post By: Michael McCord

Hi All,

A key component of product development is the setting of the premium. This has proven difficult for commercial insurers that have little if any good quality risk data on the low income market. This leads to high loadings, high premiums, and often, high, some might say excessive, levels of profits. As Nhu An mentioned, we do not want regulators to impose premium levels for microinsurance, but might they have incentive to regulate if they see "excessive" premiums, linked with "excessive" profits?

Such premium levels also do not facilitate marketability of microinsurance products. As premiums are higher, and less is returned to the policyholder in terms of claims, the market sees less value to them in these products. MFIs and banks can make people buy the policy, but is this really developing an isurance culture?

All parties need to benefit from microinsurance, however, it is easier for an insurer to benefit if their products are heavily loaded, and people are required to buy them.

What are some things that your institutions are doing to ensure "fair" levels of profits to this market? How does your institution define "fair" in terms of profits? Who should be the watchdog, if anyone, over premum levels?

Michael

RE: MICROINSURANCE: DAY 1 - PRODUCT DEVELOPMENT
Post By: Gabrielle Tomchinsky

I think that here many very important issues are converging:

How is a market price "tested" when you have a mandatory product? As Arup pointed out, if a price is too high, clients won't buy the product. But this mechanism is disabled when products are mandatory. That puts a much greater responsibility on the MFI to obtain the best possible terms.

The question is who is verifying the price and on what basis? If an MFI is negotiating terms, how does an MFI know what is considered fair market price?

I believe that this is where a professional intermediary can bring much value. An intermediary has many clients and will have a much better sense of overall global market conditions in specific countries and regions.

Gabrielle

RE: MICROINSURANCE: DAY 1 - PRODUCT DEVELOPMENT

Post By: Michael McCord

Gabrielle,

Can you clarify / develop for us more about this "professional intermediary" for microinsurance and what role they could have not just in pricing and monitoring fairness, but also in the rest of the product development activities?

Michael

RE: MICROINSURANCE: DAY 1 - PRODUCT DEVELOPMENT

Post By: Gabrielle Tomchinsky

A professional intermediary is a qualified third party that is an expert in insurance. Depending on the laws in a country and the functions the entity will perform, it could be an agent, a broker or in some cases a consultant. The job of a reputable intermediary is to design tailor made insurance products and negotiate the best terms and conditions. They can use their portfolio of business as leverage to engage insurance markets and obtain terms that an MFI may not be able to achieve on their own. In addition, they can structure insurance programs across several insurance companies and have access to (or might even own) reinsurance facilities needed to support an insurance program.

The question is who will be negotiating with the insurance company? Who will push? It can be the MFI, it can come from the insurers themselves if they are proactive and are committed to serving this market segment or it can come from an intermediary.

I don't believe intermediaries are the only option, but that there is an important role for intermediaries to play in the microinsurance field just as they have in the commercial sector. The objective is to bring client driven products into the market place at the most competitive terms and to push on all fronts that will help to accomplish this goal.

Gabrielle

RE: MICROINSURANCE: DAY 1 - PRODUCT DEVELOPMENT
Post By: Enrique Saenz

Hi Gabrielle, I believe you can "Test" the price trough the MFI´s delivery channels because they are the ones who know their clients. It is not necessarily a matter of only considering a high price, but the knowledge of what the product can offer. In this segment it is difficult to understand what is a "High Price" or a "Fair Price" (affordable price??)and there relies the importance of working massively. To me, as an intermediary, there is a need of a common effort between Insurers, MFI and clients to find the right product at the right price. There are some costs all along the marketing, selling and premium collection process that should be balanced with the participation of all parties.

Enrique

WELCOME TO THE FORUM ON MICROINSURANCE
Post By: Richard Meyer

Mike: I am a bit surprised that our discussion today has not been a bit more structured into two main categories. For example, there are must be types of compulsory credit insurance (e.g. life, animal) that MFIs may require that borrowers purchase as part of their loan. This insurance is probably developed and sold more for the benefit of the lender than for the client and the payout probably goes directly to the lender. Then there must be insurance products that are being marketed to the poor as stand alone products which are purchased at the discretion of the client. I would think there must be many issues that are a bit different for one type compared to the other, and regulatory differences when a product is required rather than being optional. I would love to see comments from those of you who are expert in the industry that will confirm or refute this observation. Dick Meyer, Ohio State University

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MICROINSURANCE - DAY 1 SUMMARY: PRODUCT DEVELOPMENT
Post By: Michael McCord

Day 1: Summary

Thank you all for your active participation during the first day of our Speaker's Corner.

The discussion on product development was indeed lively and encompassed several key issues for microinsurance. There was clear agreement among participants that microinsurance product development must, as Felipe noted, "be driven from the demand side and be 'needs based'". Several participants noted that the product development and market research must be a continuous process and not just a one off activity.

Felipe suggested that product development should be done in collaboration with regulatory bodies. Arup reminded us that there are two schools of thought related to the regulators. One is that regulators need to be flexible and allow for innovation in microinsurance, while the other takes a paternalistic approach using close supervision of microinsurance providers in order to protect the "vulnerable sections of society." He draws a distinction between regulated insurers (that should have responsibility for their own products, given appropriate pricing), and unlicensed insurers (that should have flexibility as long as their operations are not detrimental to the system or their clients / members). Nhu An reinforced the need for flexibility, and agreed that the role of regulators in microinsurance should focus on consumer protection and client education.

Liz offered that a preferred means of understanding the market is through qualitative research, which can be a "relatively inexpensive way [compared to quantitative research] to learn about needs and preferences of potential policyholders." Monique expanded that the role of demand research includes assessing desirable attributes of the product and provides valuable information for constructing the details of the product. Jim pushed on the relative cost of such research compared to the value of one or more year's gross written premiums in the case of a new microinsurance startup. There was no quantitative response to this question. However, Mariana noted, in agreement with Liz, that such research can be inexpensive if you (as an MFI) use your staff and have them gather the qualitative information from among clients. Mariana also noted that the insurer partner (if there is one) should contribute to the costs of the research.

Mariana noted from her experience that "we are only able to gain appropriate knowledge on the culture and customs of our segment IN THE FIELD" with personal contact with clients. In addition, she notes we must get insurers to understand our clients also. Only in this way will the insurer and MFI become "real co-partners" in developing products that are extremely simple.

In continuing the simplicity theme, N. Jayaseelan provided an example from Tamilnadu (India) where the pre-existing condition exclusion on a health microinsurance product resulted in a product "that did not get the client's response". This exclusion was not properly explained to the clients and "many claims were rejected". Client's need to be adequately educated about simple products in a simple manner. Monique concurs that in her experience "it has been an enormous challenge to translate complex issues into ideas that can be understood by people with limited functional literacy and no familiarity with insurance." Mariana noted that "the real key of offering [microinsurance products] is knowing HOW to show the benefits to our clients."

Felipe pointed out the importance of the insurers role in accumulating capital through long term products. He wondered if these might be appropriate in microinsurance, or indeed if they are even viable in such a context.

There was much discussion on insurance awareness. Arup agreed with Mariana in noting that only through awareness can people really articulate their needs and appropriate products be developed." Monique pointed out that awareness is only a piece of the education story although both awareness and education might be addressed through a variety of information delivery channels (including appropriate media). It would be helpful to hear of some examples of awareness and education program implementation with some thoughts on their effectiveness.

The issue of mandatory versus voluntary products was brought up by some participants. Arup pointed out if the price is too high, the clients will not buy the product. Gabrielle reminded us that with mandatory products there is no market mechanism to control price and that in these cases it is the institution that forces clients to purchase insurance that should be the proxy for their client's in controlling premiums. She went on to suggest a "professional intermediary" that would help with product development, negotiating, and "verifying the price". She later clarified that a professional intermediary is commonly an agent, broker, or possibly a consultant. The key issue is that someone needs to negotiate for clients in good faith.

Continuing on the pricing theme Enrique noted that it is “not just a matter of ‘high price’, but the knowledge of what the product can offer.” Nhu An sought a “soft touch” to pricing that would ensure fair pricing while allowing a “decent” margin for insurers. Brandon offered that “our focus should [not] be on profit or no profit. The question is *value*.” If we only look for the least profitable entities to offer microinsurance products, we will have few plays of any quality. A key then is value for money. Obtaining this, as Gabrielle pointed out takes us back to where we started the day, with designing client driven products.

Late in the day Mariana and N.Jeyaseelan provided us with some experiences from the field in promoting and building awareness of microinsurance. The later points out the benefits of using opinion leaders and their meetings to promote microinsurance with local examples of people that have experienced financial crises both with and without insurance cover, before educating people about their particular product. The former, points out the necessity of:

1. Preparing the front and back office. All must buy in, and field staff must be involved.
2. A proactive approach to claims with efficient processes and rapid disbursement.
3. Aggressive marketing with testimonials and “losing the fear of talking about death.”
4. Incentives. The work force must be recognized with financial and non-financial rewards.

Overall it was a good day with much to build on for Day 2 when we discuss delivery channels. Thank you all for your postings.

Michael

DAY TWO: DELIVERY CHANNELS

MICROINSURANCE: DAY 2 - DELIVERY CHANNELS

Post By: Michael McCord

Greetings and welcome to Day 2 of the MicroLINKS Speaker's Corner on Microinsurance.

Thank you to all who participated during Day 1. It was a good day with much discussion. We are looking forward to even more participation today.

On this second day of the Speaker's Corner, we will focus our discussions on delivery channels. Delivery channels are the key to the massification, or the stagnation, of microinsurance. Thus far, the industry has concentrated on a few key channels, including trade unions, MFIs, and banks. Several other channels are still being tested, including computer kiosks, post office outlets, cell phones, specialized brokers, linked specialty agents, and even coupons on fertilizer bags.

In order to massify microinsurance we will need to make the key channels more effective at selling microinsurance, and expand to new channels. Massification will require improved efficiencies and these will undoubtedly require new and responsive technological solutions.

One common strategy has been selling microinsurance through client groups. This method clearly has many benefits including reducing adverse selection and moral hazard, improving transaction efficiencies, and providing some leverage for low-income people to obtain better products and service. New technological solutions may simplify outreach to large numbers, but lack many of the benefits of group-based products.

Good marketing requires that clients understand and value the product. In many cases, delivery channels such as banks and MFIs have had limited success in actually marketing insurance to their clients – making sure their clients are educated about the product and that they want to pay for it. Part of the reason for this is that many institutions, banks and MFIs for example, require their clients to purchase microinsurance products linked to their loans. Because the product is mandatory, and sales agents are busy, little is explained about the products. Clients of such programs frequently comment about how these products simply benefit the lender.

The difference between mandatory and voluntary products is critical for many delivery channels. It is the difference between limited marketing / informing and a significant marketing and sales effort on the part of already busy staff. The old adage says that "insurance is sold and not bought". The implications are significant in developing a sales and marketing effort for products outside an institution's core business. Yet if we want to massify microinsurance much of this will have to be through products that can not legitimately be directly linked to loans or other products. It is hard to argue that a working capital borrower must buy life microinsurance that covers her husband whom she may not have even told that she is borrowing.

Financial institutions acting as delivery channels for microinsurance can benefit at two levels. On the basic level, they earn commissions and can protect their portfolios. On a deeper level, their clients' households can be more financially stable when, for example, their family is covered by health insurance or the client's husband is covered by life insurance. A more stable household is likely to yield a more stable financial services client.

Below are some questions to start off the discussion:

1. What is needed to improve the effectiveness of current delivery channels? Is it fair for us to expect that institutions like MFIs would or even could sell microinsurance products that go beyond the basic level benefits?
2. What are some examples of technology solutions that expand outreach for microinsurance?
3. If we are moving more towards technological solutions for the massification of microinsurance, how do we balance the efficiency of the technology with the need for low-income, commonly insurance-skeptical, people to understand and appreciate insurance enough to purchase it?
4. If there is to be an expansion of microinsurance to individuals and their families, as is currently being tested through various delivery channels, how do we mitigate the risks of adverse selection and moral hazard without inflating the premium to such a level that people are unable to afford the insurance?
5. To facilitate marketing, whether to groups or individuals, are there effective examples out there of strategies that have proven helpful in educating the broad low-income markets about the benefits of insurance? Might such programs enhance the receptivity to microinsurance of the low-income market?

These questions are intended to get our discussions moving. If you have other issues related to delivery channels that you would like to bring up, please feel free to post your comments, ideas, suggestions, or questions.

I am looking forward to a lively discussion on delivery channels today.

Michael

MICROINSURANCE: DAY 2 - DELIVERY CHANNELS

Post By: Natarajan Jeyaselan

Dr.N.Jeyaseelan, 3.10.07
Micro credit/Insurance consultant,
Madurai, India.

Dear members,
Greetings. I would like to share an experience from a customized Micro Health Insurance (MHI) program of a NEERA network in southern Tamilnadu, India.

-Where the NGO was involved as delivery channel, in some places, the coordinators, who handled the Micro health insurance program switched over to some other NGOs and the program suffered as MHI requires close follow up not only with insurance company, but also with hospitals, police (in case of accidents) and local bodies (for getting some identity certificates) for expediting the claim processing.

- Where the Community Based Organization (Federation of SHGs)is used as a delivery channel, the performance was higher in respect of members enrolled, claims lodged and claim amount received. There was a continuity as the people trained in the process are local community members and they are permanently resident in local areas, as rightly pointed out by Mr.Ralf in his posting.

Hence, NGO shall facilitate a tie up between the insurer and CBO and build the capacity of the CBO as a delivery channel, which is going to be cheaper and effective.
Now, I am in the process of documenting the NEERA's Micro health insurance program in South Tamilnadu. Once, it is ready by Oct 2007 end, NEERA shall be pleased to share with the interested to learn from the successes and failures in our approach.

with regards,
N.Jeyaseelan.

RE: MICROINSURANCE: DAY 2 - DELIVERY CHANNELS
Post By: Ralf Radermacher

Dear all,
When looking at distribution channels we probably need to distinguish the type of coverage sold. The distribution channel usually does not distribute once, renewals and product- (actually client-) servicing (claims) are recurring tasks which need to be taken into account. Different heads of damage have a different frequency in interaction, which might - depending on the benefits covered - reach its peak in health insurance. Additionally, the amount of information flowing might be different. A death as underlying event in a life insurance policy is relatively easy to verify, in property the degree of fraud & moral hazard can be higher, in health insurance an illness might be even difficult to verify impartially or is often subjective.

When looking at distribution channels the following parameters – most already flagged by Michael - seem to be important:

1. Low transaction costs: transaction costs load onto the risk premium and thus the higher these costs the less attractive a product seems. Some factors influencing transaction costs are:

1.1 Physical presence: a physical presence close to the clients reduces travel costs for both - the distributor and the clients (in case of claim for instance or need for further information).

1.2 Trust in willingness to deliver: Insurance is different from buying Chapati. Clients pay upfront for a conditional service. If thus trust in the distributing institution is lacking, the costs of convincing (trust building) will be high. Outsiders (like agents) often do not enjoy the trust of clients. The more a process and the decisions within microinsurance are transparent to clients, the higher their trust seems to be.

1.3 Confidence in ability to deliver: Convincing clients about the insurance provider's ability (not willingness) to deliver benefits when due will create further transaction costs. A well trained distributor and a sincere answer on how long term sustainability is secured might help to overcome this.

2. Enabling broad affiliation: Broad affiliation reduces advserse selection and improves risk diversification. Therefore, a channel which helps to reach big groups of diverse risks improves the overall functioning and affordability (reduced risk premium) of insurance. It has also a repercussion on transaction costs (individuals vs. group (or community) subscription).

We, at the Micro Insurance Academy, follow a community based model in which we enable members of the insured community to take over most of the administrative functions themselves. Premium collection, claim scrutiny AND decision, maintaining records etc. is all entrusted to the community, i.e. the insured themselves. These local activists are permanently present in the insured community and can provide information as needed. They learn how to explain insurance best, give guidance to obtain benefits and to facilitate local benefit package design through CHAT (check out the 6 min video at www.microinsuranceacademy.org). CHAT, as a community based process, challenges the understanding that "insurance is sold and not bought" as it localizes the package and makes it attractive and simultanously shows the benefits of insurance. Our field tests have shown that an active demand is arising.

Insured members are also trained to manage the democratic ground structure. In this democratic ground structure claim committees decide upon settlement of claims, using information available locally. Physical presence and trust are addressed through this. To address confidence in the ability to deliver in the long term, a link to a provider of reinsurance(-like) services is proposed to the community based scheme. The link is established on the basis of the locally designed benefit package (properly priced); the trained and capable ground structure offers the insurer an attractive low-cost pitch. But not for distributing pre-designed products, but rather as absorber of outlier claims. This model seems particularly interesting where frequent transactions and a high information need are connected to insurance, like in health or some sorts of property.

Ralf

These discussions and my experience can so far be summed up in the idea that PWDs need an incubator that can prepare them for microenterprise and microfinance.

RE: MICROINSURANCE: DAY 2 - DELIVERY CHANNELS

Post By: Felipe Botero

In the insurance and pensions world distribution is the glue that binds the consumer and the insurer. Technology will be essential in the delivery of insurance, however we should never forget the people factor!

The person to person model is very important because it creates the potential for inserting education, advice and service into the product equation.
The question is how to do this in an economically feasible manner?

The group approach that the MFIs have leveraged is likely to prove out to be the best method. However, we should also look to the past when large insurance sales forces were used to deliver low face amount policies directly to the consumer. A hybrid of people and technology is probably the most likely scenario, I seem to recall that the example of

CruzSalud (http://www.cruzsalud.com/index.php) in Venezuela was headed down this path.

Felipe Botero

RE: MICROINSURANCE: DAY 2 - DELIVERY CHANNELS
Post By: William Finkelstein

Hi everyone,
Arup began yesterday to touch on the role of regulators in recognising delivery channels and distribution systems that can lower costs. Has there been any discussion amongst regulators/supervisors about how they can enable or enhance efficient delivery channels?

Also, following up on Felipe's comment about the people factor, have there been any other direct sales force delivery channel initiatives along the lines of Tata-AIG's model in India? On the surface this would appear to be the most cost intensive method. Any comments about the potential for the direct sales force model?

Looking forward to the rest of today's discussion.
William Finkelstein
MBA Candidate
NYU Stern School of Business

RE: MICROINSURANCE: DAY 2 - DELIVERY CHANNELS
Post By: Enrique Saenz

MFIs method to group approach has proven to be the best because they use an established structure at no extra costs, at least not substantial extra costs. Besides the sales of the product, MFIs delivery channels can absorb some other responsibilities such as educators, advisors, adjusters, premium collectors and probable the most important one in the long range, to develop client awareness and fidelity towards the MFI and the insurer. From the insurer side, the prompt response to settle the claim will support the sales effort of the IMFs delivery channel.

In the case of CruzAzul, being a medical pre-paid Company, the coverage limits they offer are much higher than the microinsurance products, and generates enough income for the company in order to absorb administrative, selling and operative costs. Besides, there are different coverage limits that are chosen by each client, the higher the limit, the higher the premium. Groups have special treatment at lower rates.

Enrique

RE: MICROINSURANCE: DAY 2 - DELIVERY CHANNELS

Post By: Liz McGuinness

Client research is not only about entering the market, it can also provide insight into how delivery channels work for the clients. Microfinance Opportunities carried out two client satisfaction studies with insurance policyholders in Uganda. Save for Health Uganda: The first case study was with Save for Health Uganda (SHU) which is an NGO. They support 14 health schemes within Uganda including insurance, credit and insurance/credit hybrid schemes. SHU has contracts with health care providers, most often hospitals. We studied the insurance/credit hybrid this past summer. In this model, the members pay an annual premium to SHU and the health care provider. This amount covers both the insurance fee and a contribution to the credit fund. They also pay annual management fees to their Association and to their group. When members access health services, if their cost is less than $18, their medical bills are paid by the scheme account, to which the members are then indebted. They then have three months to reimburse the scheme for their treatment. If the medical costs are more than $18, an insurance component kicks in and covers costs between $18 and $62.

The delivery channel for this program works in this way. SHU has contracts with the health care provider (hospital). SHU provides technical assistance and insurance to an Association of 555 members. The Association has three leaders and is made up of 5 village-level groups. These groups also have three leaders each. The group leaders play an important role in marketing, facilitating applications and collecting premiums. The funds collected are deposited with the hospital. The claims process is minimized since the health services are provided on credit or covered by insurance. However, policy holders still need assistance with this and the hospital has provided extra staff to help the patients. Repayment of the loan is done through the group. The hospital's cashier attends the groups' monthly meetings to reconcile their accounts. This delivery channel like many others serving poor populations relies on reducing transactions costs by working at the group or association level. It also relies on volunteer labor (the group leaders). Participants in the scheme are comfortable working with the groups and appreciate the fact that they know their group leaders (especially the treasurer who collects premiums) and that they live in the same community.

Interestingly, the recruitment of new members to the scheme is done by current members (word of mouth), group promotion meetings held at the village level with support of SHU staff and also by the Hospital workers. Applications are handled by the local group leaders and then sent up to the Association level. The focus of our study was on the satisfaction of the policy holders, as a result we do not know very much about the relationship between SHU and the hospital. It would be interesting to understand more about how that process works. Microcare Health Ltd: Microcare provides health insurance to the formal and informal sector in Uganda. Microcare has arrangements with 150 selected healthcare providers who will treat Microcare policyholders for pre-agreed prices, upon presentation of their identity cards. Microcare requires that their policyholders belong to an association.The policyholders who participated in our research came from a Community Association which is composed of many groups including a SACCO, some FINCA (microcredit) groups and Microcare insurance groups. A member of the association can belong to any of the groups. The microinsurance activities are managed by a team of three people. Microcare staff visit the group monthly to check up on operations and to keep members informed of the program. The initial marketing of the program was handled by Microcare but as members become experienced they take on more responsibility for this. Premiums are collected by group members and deposited in Microcare's account at a commercial bank. Claims are mostly handled at the health service provider level but the quality of the process varies by provider. Some hospitals have dedicated staff handling Microcare policyholders. In these cases, policyholders can be treated in the hospital without paying cash. In cases of emergencies, at night when Microcare staff are not available, the policyholders need to pay cash.

Other times, policyholders need to call Microcare to get clearance. Again, we do not have the full picture of the relationship between the insurance provider and the health service provider. However, we can say that the use of the Association and groups assists Microcare policyholders to save up for their premium (through the SACCO or other institution) and pay their premium locally and conveniently. Policyholders are less satisfied with the trend of Microcare leaving themarketing up to the association and groups. Both of these examples show that microinsurance does not have to depend on microfinance institutions for delivery channels, but in this context it still needs to work through large groups in order to bring down the transactions costs of both the policyholders (time and transportation costs) and of the insurance provider. The case studies also reinforce the importance of face-to-face relationships.

RE: MICROINSURANCE: DAY 2 - DELIVERY CHANNELS

Post By: Marian Torres

Well In the same MIF could be different delivery channels, the MIF that already have some savings products or that use channels as debit cards an so on, those are some way of making process even more efficiently with lower costs

Here we are studying the possibility of having some of our clients, that already witness the benefits of the product, being promoters, but this still in the oven we have not test it, but I know some insurers use the beneficiaries as promoters so it could be a way to have a new channel face to face..

Mariana Torres

RE: MICROINSURANCE: DAY 2 - DELIVERY CHANNELS

Post By: Gaby Ramm

Dear all,
Touching another aspect of using cell phone for MI operations, which Michael mentioned in his introduction.

Munich Re insurance made critical experiences with this technology: The cell phone provider raised the fee significantly because the customers increased their calls substantially after they got insurance through cell phone cards - which was not calculated in the flat rate for "ordinary" phone communication prior to entering into agreement with an insurance provider. The issue is not yet resolved.

Gaby Ramm

RE: MICROINSURANCE: DAY 2 - DELIVERY CHANNELS

Post By: Gaby Ramm

Dear all,
Following the interesting discussion I would like to respond to the role of regulators:

Arup and William addressed the role of regulators for strengthening MI delivery channels: If MFis, NGOs and other organisations of civil society (and even private institutions) play an essential role in MI delivery and the state has an interest in expanding MI products to low income groups then the regulator could play an important role (e.g. as in India and probably in Ruanda). In joint discussion with all stakeholders the regulator could recognise the tasks to be undertaken by NGOs etc. for their MI operations and the qualification required to offer professional MI services to the customers. Furthermore, basic training requirements should be defined for MI operations (however, this depends on the delivery model choosen - a bit too difficult to go into detail now). The regulator could recognise the defined tasks and the basic qualification, which must be fulfilled by organisations offering MI. This is one component of consumer protection - though not sufficient, of course.

Furtherore, we cannot expect NGOs etc. to provide their services free of charge (this would not be sustainable). Various speakers stated already the variation of loading administrative costs to the premium. Experiences reveal the broad spectrum of administrative fees - which are often not made transparent to the customers (an intransparent practice maybe taken up by the regulator?). Approximate costs forÂ MI operation (depending on the product, delivery model, location, etc) could be fixed by the regulator in joint dialog with all relevant stakeholders. This can serve as an indication for the commissions to be paid by insurance providers - the range being defined by the regulator.

One has to keep the balance of on the one hand not undermining innovations and on the other hand providing official recognition to the role of MI intermediaries and consumer protection.

Gaby Ramm
Senior Consulant to GTZ
PPP microinsurance projects and social protection for the informal economy

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RE: MICROINSURANCE: DAY 2 - DELIVERY CHANNELS

Post By: Liz McGuinness

Dear Enrique,
I think that in theory you are right - MFIs can be effective delivery channels for microinsurance. However, what we find in some places is that the MFI management just puts the responsibility for sales, premium collections and claims facilitation onto the credit officers without providing them any extra compensation or very much training. Most MFIs have salary incentive programs for loan officers which are related to the volume and quality of lending activities. Without incentives for promoting and administering microinsurance, voluntary insurance products won't get very far. With mandatory insurance products, we have found that the loan officers don't understand the products themselves and therefore cannot explain them to the clients/policyholders.

I would like to know if anyone knows of effective incentive schemes to motivate microfinance front-line staff to promote and administer insurance products?

RE: MICROINSURANCE: DAY 2 - DELIVERY CHANNELS

Post By: Richard Leftley

Dear Liz

I would agree strongly with your comments. We starting offering free training to all MFI staff that we work with and have seen a significant improvement in client appreciation of the products.

In relation to incentives, we found that we could introduce a voluntary rider such as "hospitalization cover" to a compulsory credit life or term life policy. We gave a mobile handset to the loan officer who signed up the largest number of his / her clients every quarter. Whilst this meant that most of our profit was wiped out by having to buy the phones we were still able to break even on the hospital cover but what it enabled us to do was ensure that the loan officer was really telling clients how the insurance worked - even the compulsory life product.

When the loan officer is incentivised to talk to clients on insurance he / she has to explain the whole product including the compulsory bit and this seemed to work well.

Any other examples out there?

Richard Leftley

RE: MICROINSURANCE: DAY 2 - DELIVERY CHANNELS

Post By: Gabrielle Tomchinskey

Incentives can get tricky. We have seen some cases where monetary incentives result in "very creative" sales pitches that end up leading clients to believe that voluntary products are mandatory. We are now trying to figure out how to develop incentives that incorporate both sales and education which much more challenging for host of reasons.

This gets back to who should sell product, how it should be sold and how all parties can work together to find win win solutions.

Gabrielle

RE: MICROINSURANCE: DAY 2 - DELIVERY CHANNELS
Post By: Getaneh Gobezie

Dear colleagues,
Thank you for this interesting discussion.

Richard Leftley has highlighetd an important programme that they are running in Asia as well as Africa. MFIs usually focus on microcredit, much less on microsaving, and very little on microinsurance.

My Institution, the Amhara Credit & Saving Institution (ACSI),has been engaged very recently in micro-insurance delivery to its 'existing clients'. It focusses on 'life insurance', in case of death of the credit client. The product has been very welcome by clients. But also demand is growing from clients, particularly on 'livestock insurance', since livestock is one of the main engagemnent for the majority poor, agricultural-dependent, clients in rural Ethiopia. There are also demands for health ensurance. But given the burden of work to our credit & saving officers, who are seving over 530,000 credit clients as well as well over 320,000 'voluntary' saving clients, and still using 'manual' management information system, this is a real challenge for the institution.

Wether-based insurance is another product initiated by the world bank in clollaboration with the World-Food Programme for Southern Ethiopia. But there is potential demand for this too.

I would be happy to hear more about the services by Richard Leftley company, and experiences of other colleagues, and how we can learn more and collaborate in this important area to the benefit of the majority poor.

Thanks and Regards

Getaneh Gobezie

RE: MICROINSURANCE: DAY 2 - DELIVERY CHANNELS
Post By: Julius Ssegirinya

Colleagues,

These are very useful contributions. There is still alot of resistance to microinsurance programs in MFIs and microfinance-oriented banks largely because the benefits of microinsurance are indirect in so far as financial performance is concerned. Microfinance lending is known to generate income for the MFI since it has a direct impact on P&L. These MFIs and banks don't realise however, that microinsurance is vitally important for risk management and relationship management. [Of course the other problem is that microinsurance is not as well understand as microfinance]. And in some organisations, insurance against death does not seem to excite microfinance lenders, as they believe that the largest proportion of loan defaults are caused not by death but by other factors i.e. business failure, moral hazard, information asymmetry, flimsy collateral, etc.

The real challenge therefore is how to educate these MFIs/banks on the usefulness and benefits of microinsurance. The correlation between an insured portfolio and portfolio quality should be well brought out. Other incentives like profit-sharing could be attractive to the MFIs/banks. I believe that this is crucial mostly in the initial stages up to such a point when buy-in has taken root.
Best regards,
Julius Segirinya

RE: MICROINSURANCE: DAY 2 - DELIVERY CHANNELS
Post By: David Cracknell

Colleagues
I am newly signed up to this discussion, for which you have my apologies. Michael asked me to comment on the use of technology in delivery of services.

I am currently based in Kenya where we are seeing a transformation in how services are delivered. Some 700,000 Equity Bank customers now have magstripe cards, 7,000 people are signing up every day to use the M-Pesa mobile phone money transfer system. Some 130,000 Jamii Bora street children and low income clients have mag-stripe cards. The other banks and mobile networks are responding with their own offerings. MFIs are being regulated and are transforming. Linkages are being made between different types of financial institutions on a regular basis.

So what does this mean for insurance. Well I recall my Mother years ago paying the man from the Prudential every time he visited - it was a doorstep collection service for a life assurance premium aimed at housewives. Well using electronic mechanisms we can collect from a large number of people at a small cost, by creating payment agents - whether these are loan officers or simply merchants and having a regular deduction from the card based account. In principle it does not matter then whether the scheme at the client end, is group or individual, as different schemes can use the same collection mechanisms. MFIs then become de facto marketing agents or larger MFIs can tailor their own scheme based on a white label offering provided by an insurance company.

Of course you still need to have mechanisms for handling claims and this would differ according to different types of insurance policy.

In most markets, including Kenya electronic systems are still being developed and the potential for linkages is still being explored, so while I would not expect progress on e-banking and insurance immediately, I would expect to see this over time. However, the pace of change is rapid, all of this has happened in Kenya in the past 3 years.

David Cracknell
MicroSave

RE: MICROINSURANCE: DAY 2 - DELIVERY CHANNELS
Post By: Michael McCord

Hi Enrique and others

Indeed MFIs would seem ideal as distribution channels for all the reasons that you mentioned. Some do utilize there economies to offer good products efficiently. However, many MFIs seem satisfied with simply covering their portfolio risk from death, and generating some non-interest fee income for the bottom line. The jump from mandatory to voluntary products, which may help clients more, is difficult and time consuming.

We have talked about the need to educate the market and actually sell the products if we want something more than just compulsory credit life microinsurance. Often we place the burden of that marketing and educating on the field officer - field officer that is likely already overworked just trying to manage a loan portfolio. This is the reality of the "glue that holds the insurer to the client", as Felipe noted.

William brought up the consideration of a microinsurance sales force like at Tata-AIG or Delta Life (Bangladesh). Do we need to consider marrying the benefits (and costs as William notes) to the efficiencies and benefits of the MFIs? Gemini Life in Ghana, AAR Health Services (an HMO) in Kenya, and Microcare in Uganda among others all found that they could not rely on the field staff of their partner rural banks (Ghana) or MFIs to effectively sell their microinsurance products. These companies found that they needed to emplace one of their agents in each rural bank (Gemini) or send their agents to do some or all of the selling to the MFI clients.

I do believe we need to work to improve the effectiveness of MFI and banks as delivery channels. Part of this will come through market competition and part through getting MFIs to recognize the additional indirect benefits of microinsurance to their clients and their bottom lines. We also need to do more broad market education / awareness building (as we discussed yesterday) to take some of the burden off the field officer.

RE: MICROINSURANCE: DAY 2 - DELIVERY CHANNELS
Post By: Mariana Torres

What I have seen, is that our clients trust the MIF not the insurer. The insurers renown is terrible, what must of our clients thinks when you mention "insurer" is: they never pay, the always have small letters, etc.. so those are some of the rehaznos that we as MIF still have to be blue to the client.

It's clear that voluntary products methodology and managment, becomes more difficult, andi f we think about the possibility in offering a microinsurance product to some one that is not a loan client of the MIF but keeps the profile of our clients, are we going to be able to keep this relation face to face?

I think each day we have to involve more the participation of the insurer that we are working with, in terms of incentives, education, marketing tools, etc. And we have to try to educate also our clients more into automatization, we can start with this in the renewals porcess, that we already train our clients about the product and maybe the rewal effor Could be support from the insurer call center...

Mariana Torres

RE: MICROINSURANCE: DAY 2 - DELIVERY CHANNELS

Post By: Don Canning

Hello everyone,

Topic: What are some examples of technology solutions that expand outreach for MicroInsurance.

I work for Microsoft's WW Insurance team helping drive the 'Insurance Value Chain' primary made up of Partners (Independent Software Vendors), customers (very large insurers) and developing Intellectual Property (IP) enabling innovation. One of my passion points is MicroInsurance, enabling technology capabilities by finding and promoting solutions (any) that makes it easy to do business in a transparent way. The reason I say passion, as you know this is a difficult space to make a profit, therefore more of an altruistic effort currently. Disclaimer; I am not connected with Gates Foundation nor do I have influence, therefore do not want to start a flurry of e-mails requesting access / funds etc.

While working with a few large insurers they tell me that they are ready to enter this space and have a way to stream-line their existing back-end systems for cost effective scalability. They assert the need for a cost effective partner channel (e.g. NGO's) to reach mass population, which is the key to a breakeven point for insurers. Apparently the cost of that last mile between insurer and customer "the channel" seems to be the most challenging aspect from cost of entry - both demographic and technological perspective. Probably the #1 tech pain point holding back MicroInsurance - my observation.

Before I joined the WW Insurance team, I ran the Emerging Business Team for Insurance incubating venture backed small startups with innovative technology and business disruption through online capabilities primarily in the USA.

My ask is if you know if interesting MI technology or people who are driving technology I'd like to connect them with Microsoft startup programs, attempting to growth that technology to fill the "the channel" gap. Naturally, it would be wonderful if the technology is using Microsoft products.

My goal is to create a reference architecture for venture capitalists, partners (ISV's), insurers, brokers, governments and NGO's to be able to see end-to-end map of MI services to drive opportunity maps / fields of engagement. Green-field to encourage development and investment, brown-field build upon existing tech/infrastructure for cost and scale and grey-field defining areas that do not need additional encouragement.

Thanks,
Don.

RE: MICROINSURANCE: DAY 2 - DELIVERY CHANNELS

Post By: Jim Roth

Hi Don,

I think you are indeed right to point out the centrality of getting that distribution channel as a critical piece. Sadly though it is of course not the only piece holding back the roll-out and no magic bullet.

You may be interested in a 100 country case study of microinsurance that you can download off the microinsurance centre's website. Basically in the world's poorest countries when it comes to microinsurance it's an almost empty landscape.

Indeed the lack of appropriate distribution channels are critical problem, but so is the lack of insurance data, willingness of some insurers take the plunge and invest in the field, appropriate regulation, competent regulators, qualified insurance staff, institutions to train insurance staff, consumer product knowledge, consumer trust in insurance companies... the list goes on and on. We will have to push on all of these fronts and levels (macro, meso and micro). I think improving technology could play a role in many of them (beyond distribution) e.g. training staff over the internet, helping regulators collect and analyse data, helping insurers collect and share data, allowing consumers to track the product info of their product on their cell phones or on the internet. There are many possible roles that are vital that better IT technology could do to help scale up microinsurance. If your resources are limited, distribution would be as good a piece as any to start. Is is the most important place to start. In this empty microinsurance landscape that is hard call.

Jim

RE: MICROINSURANCE: DAY 2 - DELIVERY CHANNELS

Post By: Richard Leftley

Hi everyone

I have been following the event with great interest to date. I would like to add my comments to those that have already been shared. We have a rather unique perspective on the theme of delivery channels as in 2005 we established the worlds first and so far only (?) insurance intermediary focused exclusively on the poor. The Micro Insurance Agency, a subsidiary of Opportunity International, seeks to serve the low income market by distributing insurance products through a range of channels including microfinance providers, humanitarian aid organizations and via retail models. We currently serve in excess of 3,300,000 people in ten countries with a range of life, health and weather derivative products.

In addition to distributing products we also provide our partners with free product development and with free back office administration for tracking of those insured, premiums and payment of claims. We have invested heavily in IT systems which have allowed us to reduce our costs and our average gross revenue per client per month are just $0.25. Service is key and our claims payment speed averages six days across Africa and Asia.

We originally established the Micro Insurance Agency because we recognized that providing Technical Assistance in product design and implementation to our MFI partners was yielding slow results and the products that could be implemented were often basic as MFI's lacked the MIS required to administer insurance products that covered wider than the borrower and the term of the loan. By being a broker our remuneration is provided through commissions and as a result we only get paid for our investment in product development if the product works and sells well and if it remains competitive. Our interests are therefore closely aligned with our partners.

We currently work with a wide range of MFI's from most major networks and a number of the larger humanitarian aid organizations. We provide the World bank with project development / management expertise for its weather index products across Africa and we are starting to experiment with retail as a form of distribution using existing points of sale such as mobile phone kiosks and petrol stations as we can leverage the brand and the existing cash handling capability. This is showing early promise.

I think that the intermediary model has many advantages and can add value to partners at the client end and risk carrying end of the spectrum. I am greatly enjoying being part of this event.

Best Regards, Richard

RE: MICROINSURANCE: DAY 2 - DELIVERY CHANNELS
Post By: Arup Chatterjee

Apologies for joining the discussions late.

1. The regulator in India has recognised a "microinsurance agent" as an alternate distribution channel while compared to a conventional insurance agent. There are no mandated qualification and licencing requirements for a microinsurance agent. The insurance company enters into an agreement with the microinsurance agent and provides training at its own expense. The microinsurance agent span of operations is restricted to selling of microinsurance products only. He gets a higher remuneration and has to undertake additional responsibility of servicing an insurance policy, eg at the time when a claim is reported.

2. While discussing about distribution costs very often we tend to forget the policy servicing costs. Reducing these costs will continue to pose a challenge even when we use state of art technology for distribution of products. Therefore while designing distribution models we need to factor this element too to make it more cost efficient and cost effective.

3. It is upto the insurers to innovate and present a case to the regulator to recognise a new channel as an intermediary. The insurance law in India provides the lever to the regulate to recognise a new intermediary other than the ones which are traditionally there in the market viz. insurance agent. It is under this clause that the regulator has defined a "microinsurance agent" and has come out with special regulations. If the absence of such an enabling provision the regulator is handicapped. Without commensurate changes in laws, which most often is time consuming, introduction of new channels may get thwarted or delayed.

4. One also needs to bear in mind that recognition of new payment channels and gateways not only needs to be recognised by the insurance supervisor but also by the bank supervisor, especially where payments and settlements

mechanisms is involved. If the bank supervisor fails to take cognizance of certain transactions as legitimate for the purpose of money transfer there is a risk of such transactions being seen as illegal.

5. The regulator is wary about distribution costs not being transparent. Higher distribution costs doesnot necessarily bring benefits to the intermediary concerned in terms of increased remuneration. There is this evil of rebating which is widely prevalent. As a result the insured loses out in terms of after sales service from the agent.

We need to take a integrated view and keep the above issues keeping in mind while designing appropriate regulatory and supervisory regimes for enabling the development of microinsurance.

Arup Chatterjee
IAIS Secretariat
Basel, Switzerland

RE: MICROINSURANCE - DAY 2 SUMMARY: DELIVERY CHANNELS

Post By: Michael McCord

Microinsurance: Day 2 - Summary

Thank you all for a great day of discussions on delivery channels in microinsurance. We started out the day with a series of questions for discussion drawn from the Day 2 introduction.

1. What is needed to improve the effectiveness of current delivery channels? Is it fair for us to expect that institutions like MFIs would or even could sell microinsurance products that go beyond the basic level benefits?
2. What are some examples of technology solutions that expand outreach for microinsurance?
3. If we are moving more towards technological solutions for the massification of microinsurance, how do we balance the efficiency of the technology with the need for low-income, commonly insurance-skeptical, people to understand and appreciate insurance enough to purchase it?
4. If there is to be an expansion of microinsurance to individuals and their families, as is currently being tested through various delivery channels, how do we mitigate the risks of adverse selection and moral hazard without inflating the premium to such a level that people are unable to afford the insurance?
5. To facilitate marketing, whether to groups or individuals, are there effective examples out there of strategies that have proven helpful in educating the broad low-income markets about the benefits of insurance? Might such programs enhance the receptivity to microinsurance of the low-income market?

Enjoying the time zone benefit, Ralf got us started off recognizing that we should not be thinking simply about generic delivery channels, but that we need to consider the product they are servicing because different products require different levels of effort. He also noted, and this was reiterated by Richard, Mariana and others, that delivery channels are not simply sales agents. There are significant responsibilities that the delivery channel must assume. Ralf suggests that these activities are well entrusted to local communities, that have been trained to take on the range of servicing functions.

N. Jeyaseelan offered us another great example from Tamilnadu (India). Comparing an NGO delivery channel to a Federation of Self-Help Groups (SHGs), where the SHGs performance as delivery channels was higher in terms of enrolled members, and claims. This provides support to Ralf's point that trained local community members can be more effective delivery channels. (The paper that N. Jeyaseelan drew from for these comments will be available at the end of October).

Enrique noted the ideal structure of MFIs for delivering microinsurance including their ability to gather large groups which can benefit from group pricing by insurers. However, Liz quickly noted that this "ideal structure" is basically theory. She noted that in fact most MFIs simply load their already overworked field staff with the additional responsibilities of selling and servicing microinsurance products. As noted in Day 1, incentives for these staff are necessary, but because of the low level of premium, effective incentives require significant consideration. Richard, for example, noted that in some cases his organization offers voluntary riders on top of mandatory products. A cell phone set is awarded to the highest seller each quarter. Richard noted that "when the loan officer is incentivised to talk to clients on insurance he / she has to explain the whole product including the compulsory bit and this seemed to work well."

Too often we send out ill equipped field officers to sell or service microinsurance products. Richard noted that in practice when MFI staff are provided with free training, they have experienced "significant improvement in client appreciation of the products". Insurers provide extensive training to their tied agents. Why should we expect that credit officers can sell and service microinsurance without proper training and sales tools?

Gabrielle reminded us of cases she (and likely the rest of us also) has seen where incentives result in "very creative" sales tactics as well as voluntary microinsurance products that are presented as mandatory. She notes that key questions then become: who should be selling insurance, how should it be sold, and how can the different parties work together for win-win-win solutions. Mariana noted that success here will require insurers and delivery channels working together to address these issues.

A common theme throughout the day was that of balancing the need to mix the people factor (as Felipe put it) with the need for technological solutions to improve efficiencies. Although we went back and forth on the issues of technology and people, we seemed to end with a recognition of the need for some hybrid mix of the two.

Arup noted the importance of considering not just a reduction in delivery costs through technology, but also the need to reduce the continuing servicing costs. Much of the discussion seemed to recognize that the distribution itself is still going to require human intervention, and thus the place for the most important focus for cost reduction through technology is likely with servicing costs.

Richard provided information on the Micro Insurance Agencies of Opportunity International. These agencies not only distribute products, they also provide product development, free back office administration, and top quality service. They offer a range of products through a range of institutions on a cost effective basis.

Don reflected the day's introduction noting that the "last mile between insurer and client (the channel), seems to be the most challenging aspect from a cost of entry perspective." He noted this as both a demographic and technological problem. Don would like to learn of interesting MI technology or people that are driving technology. An important consideration in the use of technology as a payment channel will require not only approval by the insurance supervisor but also that of the banking supervisor. This may hinder rapid advancement of technological solutions in microinsurance payment systems.

Jim noted that although delivery channels are a critical problem, there are several others that will need to be addressed if we are to massify microinsurance access. He suggests that technology may have an important role to play in addressing a number of the issues. Technology can assist in areas as diverse as training staff on the internet to transacting data between client, delivery channel, insurer and supervisor, as well as collecting and analyzing appropriate risk management information.

William reflected on Arup's comments from Day 1seeking more information on supervisors that may be discussing a means to enable or enhance efficient delivery channels. Gaby noted that supervisors, "in joint consultation with all stakeholders" do have a role in delivery in terms of:

- "defining the tasks of NGOs with microinsurance operations
- assigning qualification requirements for those offering microinsurance products. and
- defining basic training requirements for MI operations"

Gaby noted that setting these requirements is part of the consumer protection role of the supervisors.

Arup noted that in India where there is a microinsurance law, the regulator has recognized a "microinsurance agent" as a distribution channel. In this case the agent's activities are restricted and the linked insurance company is responsible for the agent's training.

Martina provided the example of SUSEP, the Brazilian Supervisor, who actually designed a microinsurance product subsequently launched via circular. The intensive dialog with insurers leading to the product motivated insurers to develop their own products for the low-income market which superceeded the product of the supervisor. The key issue here was the dialog between the parties that led to microinsurance implementation. She also noted the extensive discussions of the joint working group of the IAIS and the Working Group on Microinsurance which have included delivery channel issues as well as the role of supervisors in development and promotion of microinsurance. The results of these discussions can be found in the recently approved document, "*Issues in Regulation and Supervision of Microinsurance*" which are (or soon will be) available at the Speaker's Corner library.

William touched on the issue of costs in terms of delivering through a direct sales force, suggesting that this appears to be the "most cost intensive method".

Mariana offered that there could be multiple delivery channels within the same institution. In her institution this might mean using client savings accounts or debit cards to facilitate parts of the transaction. She is also testing using clients that have experienced the benefits of microinsurance as promoters. People may trust MFIs more than insurers, but they often trust their peers even more than the MFIs. Such peer marketing may help to improve face-to-face interactions while the institution fulfills it role electronically.

Monique raised the question of "who should deliver what education". She notes that especially with delivery moving towards technology with limited personal contact, there is a need to revise our thinking of marketing through private channels, and begin to think more about this education as a public good. This potentially brings market education into the realm of government and certainly into the arena of the media. Richard agreed noting that a certain minimum standard for insurance education should be the role of the government, while private companies educate about their specific products. He does remind us that in general, the state does not have a very good record of providing even basic services, and thus even the minimum standard of market education is likely to have to be borne by the private sector. Possibly this is a role for insurance associations.

Gaby provided a warning through the example of insurance sold through cell phone cards. She notes the delivery channel (the cell phone company) raised the fees substantially when client behavior led to increased calls against a flat rate due to the insurance.

Liz provided two examples from case studies she is working on which showed that "microinsurance does not have to depend on microfinance institutions for delivery channels, but in this context it still needs to work through large groups in order to bring down the transactions costs of both the policyholders (time and transportation costs) and of the insurance provider." Her findings reinforce the importance of face-to-face relationships in sales and service. (The full findings from this research are to be presented at the Annual Microinsurance Conference in Mumbai, and the paper will be available after that presentation.)

Recognizing that delivery channels need to be paid for their efforts, Gaby noted the potential for high commissions and "intransparency" in fee setting. She offers that this might be an area where regulators might fix costs, in dialog with stakeholders, as a means of controlling commissions. Nhu-An noted discomfort with leaving regulators to fix a commission range. Nhu-An suggested that a better approach might be for regulators to ensure fair pricing through an environment of fair competition, rather than defining the price and potentially discourage new entrants that might help to increase competition and lead to better pricing and better products.

Martina noted that supervisors in general are just recently becoming aware of microinsurance and their potential roles in microinsurance promotion, provision and delivery.

In general the participants seemed to agree that:

- We will not be able to get away from some face-to-face contact in microinsurance sales and service

- Technology has an important role to play, but this will be mixed with human interventions.

- There is a recognition that we need much greater effort in terms of the public good of microinsurance education. People need to be educated on a mass level in order to:

o Facilitate the work of the sales agent (whomever that may be)

o Improve the individual's ability to make decisions about products offered to them

o Create a control that helps keep sales people honest

- The government does have a role in creating the environment to make microinsurance implementation easier and pricing in general more market responsive, however, there was much concern with the concept of the government interfering with pricing and commissions.

Thank you all for an interesting and though provoking discussion.

DAY THREE: PRODUCT DEVELOPMENT AND DELIVERY CHANNELS

MICROINSURANCE: DAY 3 - PRODUCT DEVELOPMENT AND DELIVERY CHANNELS

Post By: Michael McCord

Greetings and welcome to the third and final day of the MicroLINKS Speaker's Corner on Microinsurance.

Thank you to all who have participated during Days 1 and 2. The participation has been great and I believe many of us have learned from the discussions. I am pleased with the substance of the discussions as well as the many practical examples that you have provided.

During the first day we looked at issues of product development and improving the quality and value of products and services we offer clients, as well the necessity to help clients understand and appreciate microinsurance. On the second day, we explored the issues of delivery channels, recognizing their criticality to the massification of microinsurance while at the same time exploring ways to improve their effectiveness.

Today we want to continue these discussions by taking a closer look some of the issues that we may have missed in these discussions.

We discussed some issues of groups and individuals. As we move towards new delivery channels these are often focused on individuals – cell phone insurance, sales through retail outlets and churches, sales with swipe cards in supermarkets. All these are focused more on individuals. With groups we can better control adverse selection and moral hazard. We have a better understanding of the risk structure of the insured. We can transact with clients much more efficiently.

1. Is it realistic to expect that we can move towards individual microinsurance sales in our move to massification?

2. Or will the inability to take advantage of the benefits of groups inflate premiums so much that low-income people will not be able to access these products?

We have discussed the need for market education as a public good. We agreed that this is a necessary component of massification.

3. What examples are there of market education provided as a public good, through any kind of media?

4. How effective have these examples been in terms of generating greater demand for insurance products among the low-income markets?

We have looked at product development and delivery channels. We have talked about technology, market education, market research, regulations and supervision, and a number of other key elements to microinsurance success. We have considered regulators, supervisors, insurers, various delivery channels, and policyholders / clients / members.

5. What is the role of donors in terms of product development and delivery channels in microinsurance?

6. How is that role altered by the fact that insurers are investing their own funds in this market, and indeed some insurers are providing grants to MFIs that act as delivery channels?

I look forward to another great day of discussion on these issues.

Michael

RE: (5. & 6.) DONOR MONEY/INVESTMENT

Post By: Monique Cohen

An important role of donors is to provide the public goods that serve the industry at large and all potential consumers. If our goal is to raise the level of insurance literacy of as many people as possible so that we can have better informed consumers of our products and to ensure that products are designed more appropriately for the consumer, then education and market researchers are two possible areas of donor intervention. Donors who might engage in this type of support might include not only the multilaterals and bilaterals but also corporate social responsiblity divisions of major corporations. I see a role for in-kind as well as financial support.

Monique

RE: (5. & 6.) DONOR MONEY/INVESTMENT

Post By: Nhu-An Tran

A late comment in the day (Washington DC time) regarding donor investments.

In May of this year, I facilitated a session on donor's role in supporting microinsurance at a World Bank sponsored conference in Rio. In that discussion, the participants (bilateral and multilateral donor representatives) agreed on the top three concrete actions that donors could take to promote inclusive access to insurance for the poor:

* Collaborate with governments on the regulatory and policy environment - includes documentation and sharing of sound and bad practices, experience from other countries
* Act as facilitator/catalyst to encourage entrance of new players
* facilitate relationships among stakeholders (between insurers and re-insurers, among different govt ministries)
* Collection and sharing of market information - demand and supply of insurance

Some donors think that if we can get the enabling environment, everything else will fall into place. Personally, I think that donors should work at multiple levels. I agree with Monique that donors could play an important role in funding public good items such as client/household level demand research. The FinScope and other surveys done by FinMark Trust are good examples of strategic and value added donor investments.

The CGAP Microinsurance Working Group is currently preparing a note to capture Emerging Practices for Funders Supporting Microinsurance Note. The Note will provide a concise summary and analysis of current donor apporaches for supporting microinsurance, implementation issues and challenges, funding mechanisms, and performance and impact monitoring systems. We hope to have the Note available for public dissemination in early 2008.

Nhu-An
USAID

RE: (5. & 6.) DONOR MONEY/INVESTMENT
Post By: Barbara Magnoni

Dear Nhu-An,

I am just looking at your comment about donor support of Microinsurance and would be happy to share an experience with you in Nicaragua in more depth if you are interested in including it in CGAP's note. In 2005, USAID/Nicaragua's Human Investment Office funded a feasibility study of the potential for the Social Security Institute of Nicaragua to extend its social security health insurance to the informal sector through MFIs. The government was interested and the project helped implement a pilot program in Managua in 2006 with 3 MFIs in the country (Procredit, ACODEP and Findesa). Follow on support was provided by USAID's Bureau of Global Health with core funds for the implementation and evaluation of the pilot. In 2007, the Global Development Network provided a grant to extend the evaluation into a rigorous randomized evaluation of the pilot project that will include an extensive baseline of information. Today, we have completed a randomized baseline survey of over 4,000 market vendors in Managua, which includes data about their health costs, spending, utilization etc. The survey also involved a lottery whereby over 2,600 microentrepreneurs won free health insurance through the program. Take up was near 30% and the research project will follow up by measuring retention and with a follow on survey that will compare those that won and used insurance to those that didn't. This is only a summary but I will be happy to share more information.

Regards,
Barbara

RE: (5. & 6.) DONOR MONEY/INVESTMENT
Post By: Barbara Magnoni

Just to add to Ms. Cohen's comment, I think that in addition to donors, family members can play a role in teaching about insurance literacy. Specifically, in the case of migrants to the US who only too quickly start to learn about the insurance culture (car insurance, home insurance, health insurance) and the costs of not having insurance (which although extreme in the US, they probably represent a similar portion of household income). Programs that target both migrants and their families back home can be linked to remittance products, radio programs, events during periods of family visits to their home countries etc.

Thanks, Barbara Magnoni

RE: (5. & 6.) DONOR MONEY/INVESTMENT
Post By: Aude de Montesquiou

Dear Barbara,

Following-up on your posting; Hatton National Bank in Sri Lanka is experimenting a remittance-linked health insurance product. You can read an interview with Chandula Abeywickrema, Deputy General Manager for Hatton National Bank here.

Best, Aude

RE: (5. & 6.) DONOR MONEY/INVESTMENT
Post By: Masami Hayashi

Dear Michael and others,
Thank you for the interesting forum.

An even later comment (Mexico City time) regarding donor investments.

I think we can learn a lot from what's been discussed in the field of microfinance about the roles of donors and development agencies. In addition to, and expanding on, what Nhu-An said, what comes to my mind is the following:

- awareness campaign
- market education tools development
- training programmes for different stakeholders (donors, regulators, MFIs, insurers, etc.)
- facilitate colaboration with development agencies and governmental bodies of other sectors (such as health, education, natural disaster, climate change, agriculture...)
- invest and pilot-test in innovative ideas
- promote consumer protection
- facilitate information sharing, exploring and disseminating best practices

On the last point, it may be interesting to establish something like MIX Market (or Micro Banking Bulltins).

Masami

GROUPS VERSUS INDIVIDUALS

Post By: Iddo Dror

Hello to everyone.

Firstly thanks to the organizers for taking the initiative and for Michael for his great facilitation. I have spent the better part of the last two days in planes so could not contribute before, but now I'm back in Delhi, am happy to do so.

On groups versus individuals:

[I should start by saying that I have read some (but not all) of the postings of the last two days, so apologies to anyone who many have already mentioned what I am about to say].

Michael mentions important points speaking in favor of groups ("better control of adverse selection and moral hazard... better understanding of the risk structure of the insured"), which I agree with entirely.

It seems to me that a crucial underlying notion inherent to groups should be included in this debate, namely social capital. Social capital underpins the benefits already mentioned in Michael's opening post, but also - and more importantly - carries weight with the willingness of people to affiliate to (micro) insurance based on trust/distrust in the process as well as the external insurer/interlocutor.

The importance of social capital seems to me to be often underplayed, and thus design of products, technical tools, and distribution channels focuses mainly on individuals. My conclusion is that if social capital is an important determinant on values, constructs and financial decisions, than the consequence should be that technology and marketing tools should be adapted for efficient intermediation with groups as much as with individuals (or even more so).

The next issue that needs to be raised here with regard to groups/individuals is equality/equity. In fact, one could even raise the question "which should be the community of reference?" A network of many micro insurance units tied to a single underwriter, multiple underwriters, etc.

The reason why this is critical is that on the one hand (poor) people resent systems which makes them feel they are getting an unfair deal, and clearly, if the poor pay more then the rich for an identical product, that must be conceived as unfair. Secondly, in a growing number of developed countries, risk equalization systems have been put in place in order to reduce insurers' "cream skimming", which is the insurers' preferred risk selection, and which leaves "bad risks" out in the cold.

When products are designed top-down by insurers, with cream skimming in mind, delivered through distribution channels that are accountable to the insurer only, and focus on individual clients (which can be more easily selected as good risks than when entire groups affiliate), there is an undeniable risk that both products and processes could fail to address clients priorities and also distort the equity issue.
I think that when clients don't want to buy products that reach them through this kind of network, we should not assume that the reason is price only. The broader view of group involvement in package design, best fit to local priorities, and concerns for a fair deal are equally important and can only be entertained with groups – never with single

individuals.

Best regards,
Iddo

RE: GROUPS VERSUS INDIVIDUALS

Post By: Raymond Risler

Dear Iddo,

I think in coming to your conclusions you look at how insurance companies today serve their traditional markets - with ever increasing segmentation to avoid bad risks (or make them so expensive that only a few can afford it). While I do not dispute that this approach is not in the spirit of what we are trying to achieve in microinsurance, I think that our challenge and task is to find appropriate ways to design (and communicate in a believable way) good products and fair deals with single individuals in mind. I am convinced that only dealing with groups will dramatically lower our chances of providing access to important numbers of people because we would have to ignore large numbers of potential distribution channels (e.g. retailers) and may also not be able to fully use technological developments to lower our administration expenses.

Kind regards,

Raymond Risler
Zurich Insurance Company

RE: GROUPS VERSUS INDIVIDUALS

Post By: Gabrielle Tomchinsky

I agree with Raymond. This also comes back to the subject of voluntary vs. mandatory. When you have voluntary insurance products they are offered to groups but purchased on an individual basis. Clients are often given a selection of product characteristics and levels that they can choose from depending on their needs. This is the beauty of technology as it facilitates the delivery of products on an individual basis. I believe that is very powerful.

Gabrielle

RE: GROUPS VERSUS INDIVIDUALS

Post By: Michael McCord

Greetings everyone,

The consideration of social capital into the discussion of groups versus individuals is indeed important. We need to consider social capital in a broader context. I actually think there can be a tendency to *over*play the role of social capital. Too often we look at social capital in relation simply to the product or service we are offering. It is important for all of us to recognize that social capital is earned and spent in many ways in a village. The multitude of intertwined linkages between families in villages are typically vastly more significant than we recognize when looking at microinsurance risks and the management of microinsurance programs.

That said, technological approaches should be designed to benefit both group and individual policyholders. As many have pointed out over the last two days, there is a need to mix personal interaction (in product development, sales, and service) with technology in order to obtain the optimum (if there is such a thing) balance of (more costly) face-to-face contact, and efficiency in operations, whether with groups or individuals.

I think no one in this forum would deny that as Iddo noted "when products are designed top-down by insurers, with cream skimming in mind, delivered through distribution channels that are accountable to the insurer only, and focus on individual clients (which can be more easily selected as good risks than when entire groups affiliate), there is an undeniable risk that both products and processes could fail to address clients priorities and also distort the equity issue." Indeed much of what we have discussed has directly or indirectly related to making sure that these issues are mitigated.

I think that what many are working towards is finding ways to provide the benefits of client driven design, good fits to local conditions and priorities, and the offering of products with good value to the low-income markets, and doing all this as efficiently as possible with the "right" balance of human contact and technology. Limiting ourselves simply to groups will dramatically reduce the potential outreach of microinsurance. There is still much to do, but there is a growing recognition that these issues must be addressed if there is to be success in both group based and individual based microinsurance.

There must be other thoughts on this.

Michael

RE: GROUPS VERSUS INDIVIDUALS

Post By: Jim Roth

Greetings,

I wanted to respond to Iddo's comment about the benefits of group and communities in the designing and distributing microinsurance products.

Iddo writes "When products are designed top-down by insurers, with cream skimming in mind, delivered through distribution channels that are accountable to the insurer only, and focus on individual clients (which can be more easily selected as good risks than when entire groups affiliate), there is an undeniable risk that both products and processes could fail to address clients priorities and also distort the equity issue... The broader view of group involvement in package design, best fit to local priorities, and concerns for a fair deal are equally important and can only be entertained with groups – never with single individuals."

In my experience groups/communities/villages can be egalterian spaces, but they can just as easily be places that can be nasty, sexist, violent spaces with power unequally distributed and local elites (who ever they may be... the men, the elders, the youth, the wealthier segements of the village etc) who manipulate processes to ensure that they skim the cream of any insurance scheme (or other development initiative) that moves into their space.

Its hard for outsiders to understand the distribution of power within communities and how the community elites manipulate them. My experience of group involvement in product design has consequently been rather mixed. In fact it has sometimes been the case the only way in which I have got to know of how the elites were manipulating the group processes was through interviews alone with single individuals, whose aggregated individual preferences happened to differ from those that emerged from the "group".

Jim

RE: GROUPS VERSUS INDIVIDUALS

Post By: Mariana Torres

Jim
In my opinion, the individuals interviews are very helpful as you say, to detect very important imputs that can help us design a better product, but also I think that we will not be able to handle so many products to cover so many needs, so I think the MIF clients usually have the same profile, so the group scheme is like an advantage we have that help us design a very good product that will help must of the clients to make front to their general needs, and I thinks that's the microinsurance goal: help them having a secure economic base, that will help them go through a situation of great vulnerability (health, death, etc) with the sufficient support that will not impact their economic stability but not to solve their economic life.

Mariana Torres

INDIVIDUAL PRODUCTS VS. SALES GROUP

Post By: Brandon Mathews

So long as there are entrepreneurs and so long as insurers can offer a good group deal, there will be room for innovation to get to individuals. Entrepreneurs can help build "groups" to continue the downscaling. And for sure, better deals will be had through groups than for individuals.

On the provider end, insurers need to add value to the administration of individuals within a group in order to know what risk they have got and to keep from being commoditized.

Brandon Mathews
Zurich Financial

PROFIT VS. VALUE

Post By: Brandon Mathews

Whoa - I just erased a long and extremely erudite post because I checked back in on what had happened in the room while I was writing it - and then I hit reply to respond on Michael's point. And I don't regret it a bit...

While there are cases of actors (insurers and intermediaries) being aggressive about margin - for sure there are - I don't think our focus should be on profit or no profit. If the award goes to the least profitable, the game will have few contestants. I think the question is value.

[thanks for the forum, by the way, and good to see some familiar typers.]

Brandon Mathews
Zurich Financial Services

REGULATION AND SUPERVISION
Post By: Martina Wiedmaier

Felipe has added that product development needs to be done in context for the particular environment and should include active participation and collaboration on the part of regulatory bodies. I agree to some extent. In principles regulators should not get involved in product development. However, in microinsurance, where both providers and regulators/supervisors are in a learning process, it can make sense to involve them to some extent in the pilot experiences. The case of Brazil is interesting here: in 2005, the supervisor SUSEP developed a microinsurance product which was launched via circular. But in the meantime, the intensive dialogue with the industry on microinsurance SUSEP had been organising had motivated insurers to look at the lower income segment and launch products on their own which made the SUSEP product obsolete. Awareness creation and dialogue of both parties was an important side effect. This is also an answer on Catherine's question.

Catherine asked for more information about the interaction of microinsurance product development and regulators. What does this look like - how and when would regulators be brought into a product development process? What are the issues that you would hope regulators would become more aware of in terms of "micro" insurance vs. insurance?

Supervisors of most countries are only recently becoming more aware of and knowledgeable about microinsurance. They need and want to learn a lot about these differences, from the different type of clientele to their payment habits to the type of intermediaries they can deal with and the redressal procedures and pitfalls, just to name some. To the type of institution or agents poor customers prefer and trust in. The IAIS -supported by the CGAP Working Group on MI/subgroup regulation-supervision-policy issues - has developed an Issues Paper on Microinsurance for supervisors which gives a lot of hints in this regard.

William asked whether there has been any discussion amongst regulators/supervisors about how they can enable or enhance efficient delivery channels?In the framework of the cooperation existing between the IAIS (which is in place since early 2006) and the CGAP WG on MI /RSP Subgroup insurance supervisors and other experts have been actively discussing this issue. As for individual jurisdiction, we can refer to the supervisors of India (where microinsurance agent regulations have facilitated microinsurance development), South Africa (where a diversity of intermediaries exist who can distribute MI products; but there the most pressing issues is formalization of large MI providers rather than delivery channels); and Peru (where delivery of MI by MFIs, Coops and other organizations has been improved by a new regulation in February 2007).

Best regards, Martina

MICROINSURANCE: Day 3 - SUMMARY
Post By: Michael McCord

Microinsurance: Day 3 - Summary

Thank you all for another great day of discussions this time focused on groups versus individual products, market education, and the role of donors. Many important points were brought up and discussed today.

We started out the day with the following questions for discussion:

1. Group versus individual insurance issues

a. Is it realistic to expect that we can move towards individual microinsurance sales in our move to massification?

b. Or will the inability to take advantage of the benefits of groups inflate premiums so much that low-income people will not be able to access these products?

2. Market Education discussion continued

a. What examples are there of market education provided as a public good, through any kind of media?

b. How effective have these examples been in terms of generating greater demand for insurance products among the low-income markets?

3. Donors

a. What is the role of donors in terms of product development and delivery channels in microinsurance?

b. How is that role altered by the fact that insurers are investing their own funds in this market, and indeed some insurers are providing grants to MFIs that act as delivery channels?

We started off with Iddo reiterating the importance of groups as delivery channels, and pointing out that the benefits of groups are underpinned by social capital. He pointed out that "if social capital is an important determinant on values, constructs and financial decisions, than the consequence should be that technology and marketing tools should be adapted for efficient intermediation with groups as much as with individuals."

Iddo also raised the issue of "equality / equity". He reminded us that people do resent systems they feel provide an unfair deal. Maybe more importantly, he points out the issue of insurer skimming of only the least risky, and leaving others out in the cold. He makes the clear point that groups can mitigate these issues. "Group involvement in package design, best fit to local priorities, and concerns for a fair deal are equally important and can only be entertained with groups – never with single individuals." Several people (Mariana, Raymond, Brandon and others) agreed with the benefits and importance of working with groups, though they also reflect the need to identify and develop means of generating similar benefits for individuals in order not to exclude people simply out of a lack of appropriate group affiliation.

Jim differed significantly on the equality / equity derived from community groups. Indeed he argued that such groups can be "egalitarian spaces, but they can just as easily be places that can be nasty, sexist spaces with power unequally distributed and local elites who (for example may be, the men, the elders, the youth, or the wealthier segments of the community) manipulate processes to ensure that they skim the cream off any insurance scheme (or other development initiative) that moves into their space." We need to be careful with our promotion of these groups and consideration of them as the only access to products that offer equality and equity. We need to understand better the broad webs of social capital linkages within villages and communities. We often put much reliance in social capital, but our microinsurance linkages to social capital are mere tangents.

Recognizing Iddo's comment on the insurer's tendency towards segmentation in avoidance of risks, Raymond noted that "our challenge and task is to find appropriate ways to design (and communicate in a believable way) good products and fair deals with single individuals in mind." Dealing with groups exclusively will dramatically limit our ability to reach very large numbers of people. There are also significant additional costs to improving capacity of groups to manage the microinsurance activities that must be considered. Brandon followed up that "so long as there are entrepreneurs and so long as insurers can offer a good group deal, there will be room for innovation to get to individuals." Mariana agreed and suggested that in practice with MFIs for example, maybe things start with groups and as the parties become more comfortable with key issues, there can be more of a move to individualized products using technology.

Gabrielle expressed that one of the benefits of technology is that it can facilitate the selection of product characteristics and coverage levels even by individuals within groups. This allows for individual treatment even within groups, and thus even greater levels of value creation by the policyholder. Brandon added that "insurers need to add value to the administration of individuals within a group in order to know what risk they have got and to keep from being commoditized." David provided some information on the adaptation of technology to financial services in Kenya, even noting 130,000 street children and low-income people using mag-stripe cards for financial transactions. Technology can clearly be a powerful tool for groups as well as individuals.

Syed offered several additional delivery channels for consideration – (trustworthy) community and faith based groups, local community organizations (*dehi tanzeems*, in Pakistan), and using local leaders to ensure transparency. He suggests that using these might assist in generating "equal participation and more equitable reach."

Barbara brought up the opportunities for market education especially as relates to migrants. The migrants learn quickly about insurance in their new countries and can help educate family members at home. Aude noted the example of Hatton National Bank in Sri Lanka that is experimenting with remittance-linked health insurance.

Julius reinforced the points made in the prior days that MFIs remain reluctant on microinsurance because the greatest financial benefits are indirect, and that defaults due to client death are rather minimal. He points out that though we have discussed much about market education, there is a great need to educate MFIs on the usefulness and benefits of microinsurance in order to get them to be more serious about microinsurance provision.

Brandon noted that donor money is most critical for infrastructure including research, technical assistance, direct support for project implementation, and facilities. He reminded us that "health insurance without stethoscopes or people wearing them is less effective." Monique expounded on this noting that "an important role of donors is to provide the public goods that serve the industry at large and all potential consumers." A key public good might include market education which could lead to more educated consumers who are better able to identify quality, which would push insurers to design more appropriate products. Masami added several additional potential activities for donor funding including awareness campaigns, stakeholder training programs, collaboration and coordination of other linked development interventions (such as the improved health care systems that Brandon mentioned), funding for innovation, consumer protection, and information generation, gathering, and dissemination.

Nhu-An reflected on a recent meeting in Rio where the donor's role was discussed. She noted that the "top three concrete actions donors could take to promote inclusive insurance for the poor" were:

- Collaborate with governments on regulatory and policy environment issues
- Encourage new participants and facilitate relationships among governments, insurers, and delivery channels.
- Collect and share demand and supply information on microinsurance

Nhu-An also noted that the Working Group on Microinsurance is currently preparing a note: "Emerging Practices for Funders Supporting Microinsurance". She states that this note, expected to be available in early 2008, "will provide a concise summary and analysis of current donor approaches for supporting microinsurance, implementation issues and challenges, funding mechanisms, and performance and impact monitoring systems." There is also document, "Preliminary Donor Guidelines for Supporting Microinsurance" by the Working Group. This is available in the Speaker's Corner on Microinsurance library.

Again, I thank you all for your thoughtful contributions to the Speaker's Forum.

Michael

MICROINSURANCE: FORMAL CLOSING

Post By: Michael McCord

Microinsurance: Speaker's Corner - Formal Closing

Greetings to all active and passive participants to this first USAID MicroLINKS Speaker's Corner on Microinsurance.

These three days have been very interesting for me and I do hope that you all have gained value from the discussions. I am thrilled with the number of people actively involved in posting comments, thoughts, and experiences. I am also thrilled with the level of "views" that the Speaker's Corner received, suggesting there are many out there who also benefited from the discussions.

The formal part of the program has concluded, however, just like any other conference, you are welcome to linger for a bit to post yet another thought or to move the discussion to a deeper level with informal postings. The site will remain available for posting until close of business (Washington D.C. time) on Monday October 8th thus giving some of you who just did not have the time to post during the business week a chance to get your thoughts across. The posts will still have to be approved (to keep spammers out) so there may be a bit of a delay over the weekend, but your messages will get approved. You will also receive a summary of Day three, and a consolidation of all posts will be made available soon.

Of course, I would expect that bilateral discussions among participants would have already begun, and will continue, just as at any other conference.

I would especially like to thank everyone that posted their thoughts and comments during the formal sessions. Your participation was what made this an interesting discussion. I sincerely thank you.

I also want to thank the "back office" folks. Invisible to the Speaker's Corner participants yet integral to everything that happened online including approving all your posts (even at 3am one morning), setting people up with IDs and passwords, and doing all that system coordination work was Anna van der Heijden of International Resources Group and Natalie Greenberg of QED. They were helped at various times by Eric Stephan and Radha Arunkumar. All of them were tremendously helpful and I thank them.

Thank you to Catherine Johnston of DAI who was behind the coordination between IRG, USAID, and I.

And finally, Nhu-An Tran, from USAID where she covers microinsurance for the Microenterprise Development Office, who was the real host of this event. Without her guidance this would not have happened. Thank you Nhu-An.(Learn more about Nhu-An in this month's MicroLINKS Connections at: http://www.microlinks.org/ev.php?ID=19109_201&ID2=DO_TOPIC)

It has been a pleasure working with all of you. Thank you! The formal part of this Speaker's Corner is now closed.

Michael

MICROINSURANCE: FORMAL CLOSING
Post By: Anna Van der Heijden

Dear all,

As Michael mentioned, please feel free to continue posting throughout the weekend and on Monday.

I appreciate Michael's thanks to the behind-the-scenes staff, but of course a HUGE thank you goes to Michael Mc Cord himself for preparing and leading this forum for three days. Without his thoughtful and prodding questions and many responses, there would not have been a dialogue.

For those of you who obtained an account on www.microlinks.org to participate in this forum: Please note that there are many more resources on this learning and information sharing site supported by USAID. The best way to stay up to date is to sign up for the monthly Microlinks newsletter, which you can do at the link below:
www.microlinks.org/connections

Finally: Speaker's Corner is a recurring event on the site. If you are interested in hosting or have suggestions for other forums, please contact us.
A big thanks again to Michael and all of you for making this forum happen.

Anna

RE: MICROINSURANCE: FORMAL CLOSING
Post By: Nhu-An Tran

On behalf of USAID, I also want to add my own thanks to Michael for the outstanding facilitation of this microinsurance forum. It was a very rich discussion and I appreciate all the thoughtful postings and the time that everyone put into these three days.

If you are new to the microLINKS community, please visit our website for resources on microinsurance and other microfinance topics. Michael and DAI have also helped us to develop a microNotes series on microinsurance, which can be accessed on microLINKS at **www.microlinks.org/microinsurance**.

We look forward to hearing from all of you on the next Speaker's Corner.

Nhu-An

RE: MICROINSURANCE: FORMAL CLOSING
Post By: Perwinder Singh

Dear all

I appreciate to all contributor. and i really missed this chance to discuss some issues what i had on micro insurance. due to some field work i could not come online.

i hope in future this will conduct once again.

i want to get some answer on the following topics:
- who will be the right person for micro insurance service (is it only in rural or urban too)
- how micro insurance differs corporate finance?
- what are the indicators to give micro insurance services?
- how, an organisation will maintain the transaction cost?

i request you all, please send me some important documents on micro insurance talk and issues on Nigeria country (if any).

i hope to get the positive and very fruitful answer from the group.

regards
Perwinder Singh

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