

The CGAP Working Group on Microinsurance, now known as Microinsurance Network, includes representatives from donors, multilateral agencies, NGOs, private insurance companies and other interested parties, and was established in 2001 to promote the development of insurance services for the poor through increased stakeholder coordination and information sharing. The Microinsurance Network is organised into several Working Groups. To share information about microinsurance initiatives and the activities of the different Working Groups, the Microinsurance Network issues this Newsletter three times a year.

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Concept

MICROINSURANCE - AN INSTRUMENT WITH ENORMOUS POTENTIAL

Microinsurance offers poor households in developing and emerging countries protection against natural hazards. The extent to which this issue has grown in importance was apparent from the great interest received by the fourth International Microinsurance Conference, which took place in November 2008 in Colombia. This event was jointly hosted by the Microinsurance Network (formerly the CGAP Working Group on Microinsurance) and the Munich Re Foundation, supported by Fasesolda, FIDES and the Superintendencia Financiera de Colombia.

Some 450 experts and practitioners from around 50 countries travelled to Cartagena for the first international conference of this kind in Latin America. Compared with last year's event, there was a 50% increase in registrations from participants looking to discuss the latest trends and developments, and formulate appropriate solutions. The conference focused on the topics of regulation, training, technical solutions and innovative sales channels. Representatives of insurance companies and financial services providers were the largest contingent, accounting for around two thirds of the participants – evidence that microinsurance has long since ceased to be seen only as a weapon in the war on poverty and is instead now increasingly also viewed from an economic perspective by the insurance industry. The potential

target group is enormous: In Central and South America alone, 350 million people live at the bottom of the income pyramid.

In his opening speech, Colombia's President, Álvaro Uribe, expressed his hope that microinsurance will continue to grow in popularity. "We need to introduce the concept to the poorest members of society and emphasise that it is the best option for personal risk management – whether for health problems, times of financial hardship or natural catastrophes", explained Uribe. Instead of going to moneylenders or black-market racketeers, people should use insurance products, he said. Uribe stressed that microinsurance is not charity. "Microinsurance is heartfelt, but it is about business, not handouts." Even people with low incomes are happy to take up commercial offers, he continued.

Colombia is considered to be one of the most important markets for microinsurance in Latin America. The first microinsurance products were devised here over five years ago. Today, 11 companies offer covers in classes including life, personal accident, and funeral expenses. Property policies are currently in development as a response to rising demand. Experts attribute the success of microinsurance in Colombia to the close cooperation between insurers and the authorities.

The influence of regulation on the spread of microinsurance has been investigated by the Microinsurance Network (formerly the CGAP Working Group on Microinsurance) based on studies in Uganda, Colombia, India, the Philippines and South Africa. These studies showed that the target group for microinsurance stems chiefly from the informal sector, which is often not

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regulated: It accounts for 20% in India; in Colombia, this figure even exceeds 50%. This difficulty is compounded by the fact that this part of the population lacks the necessary education and the understanding of how insurance works.

Official strategies to tackle these problems range from moderate regulation, founded on cooperation between insurers, the government and the microfinance industry (Colombia), to actually forcing the private sector to offer microinsurance (India). Roberto Junguito, President of the Colombian insurance association, Fasesolda, spoke out in favour of the Colombian model and emphasised that no new rules were necessary. "Even without intervention, the private sector is vigorously working on the development of custom-tailored, affordable solutions to satisfy the increasing demand", he explained. That alone would guarantee further growth in this area, he concluded.

Other experts joined Junguito at the conference in calling for incentivising rather than forcing the spread of microinsurance. In this connection, it is important to turn informal insurance into more formalised (traditional) forms

Save the date!!!

The **5th International Microinsurance Conference 2009** will be held from 3–5 November 2009 in Dakar, Senegal.
Visit: www.microinsuranceconference2009.org

of insurance and support, for example, cooperative solutions in order to protect the rights of the weakest, in particular.

However, even if the parameters and products are in place, the barrier still remains that people do not understand the workings and benefits of insurance. Thus, in a survey of 550 households in Colombia, lacking interest and understanding were amongst the most prominent reasons for not taking out insurance. The most commonly given reason, "lack of money", is relativised, however, when one considers that people in Colombia's lowest-income regions spend about as much on insurance as on lotteries. Seen over 30 years, however, the mortality risk is 50 times higher than the chance of winning the lottery. This example shows how important it is to explain the significance of insurance.

Craig Churchill from the International Labour Organisation (ILO), and Chair of the Microinsurance Network, which co-organised the conference, emphasised: "Microinsurance is just one of many tools for supporting the poor. We have achieved a great deal. Now it is time for commercial insurers to go beyond simple products such as credit insurance, develop more specialised solutions and bring these to the market."

The high fixed costs in comparison to premiums are still one of the major hurdles to be overcome. An example of how innovative distribution channels can contribute both to tapping into new client groups and to reducing costs is shown by the insurer Mapfre, which is cooperating with the electricity provider Condensa in Colombia. As a result of this alliance, more than 300,000 families pay their insurance premiums via their electricity bills, with 90% of these families being in the lowest income groups.

The potential for efficiency enhancement offered by IT solutions has yet to be exhausted, but introducing such systems involves considerable effort and expense. About half of all the microinsurance providers surveyed in a study by the Microinsurance Network develop their software completely independently. Only 10% sourced programs from third-party providers. What is more, the possibilities afforded by technical solutions such as smart cards have been far from exploited to the full. That said, the use of new technologies requires careful consideration, as decisions taken in this area have long-term effects and internal processes must be optimised in order to leverage the full potential.

The conference in Cartagena showed that in Latin America in particular, the commitment of the insurance industry to microinsurance is growing. Nevertheless, many challenges remain, with costs and the tailoring of products to needs being central issues. The data available is also insufficient to be able to quantify the added value of the respective insurance solutions for the poor.

These problems will be addressed not only by the Microinsurance Network but also by the next International Microinsurance Conference, which is to be held from 3–5 November 2009 in Dakar, Senegal.

Source:
www.munichre-foundation.org/StiftungsWebsite/Projects/Microinsurance/2008Microinsurance/Microinsurance-Conference_Cartagena.htm

Concept

LESSONS LEARNED AND RECOMMENDATIONS FOR DONORS

This article is the summary from a recent note on the topic published by USAID and the Microinsurance Network. This note offers operational guidelines for donors as they construct a road map for entering or for getting more deeply involved in the sector. It recognizes that donors have different approaches in working with the sector—some more hands-on than others—and thus, it offers a broad framework that can be applied as needed. Donors include bi-lateral and multi-lateral agencies, regional development banks, development finance institutions, social investors, and foundations.

A handful of donors have been at the forefront of microinsurance, implementing programmes, documenting lessons, and developing tools for more effective donor involvement.

At the client level , demand is still often misunderstood or simplified.	Donors need to gather information about potential clients so their real needs are better understood and appropriate products developed. On the flip side, donors also need to ensure that clients are informed about the benefits of insurance.
At the micro, or retail provider level , the market is still underdeveloped.	Donors can help by upgrading the capacity of competent providers and alternative delivery channels.
At the meso, or market infrastructure level , there is a scarcity of quality information and technical assistance available.	Donors can assist by helping to create greater transparency in the sector and increasing access to reinsurance facilities.
At the macro, or policy level , microinsurance is often poorly understood.	Donors should build policymakers' and regulators' capacity and advocate for inclusive markets and appropriate legal frameworks.

Although donors will not necessarily be the driving force behind increasing access to insurance services, they do have an important role to play. As more donors become involved, they can contribute to generating knowledge, strengthening the capacity of various actors within the microinsurance supply chain, serving as neutral brokers and

Donors should...

- Ensure that all microinsurance programs have good client and economic value. Good client value means the product meets client needs at an affordable price. Good economic value means returning as much of the premium as possible to clients while maintaining viability and good service levels of the insurance model.
- Ensure that appropriate market research and institutional due diligence has been completed before funding a microinsurance program.
- Ensure that the organizational structure of a microinsurance provider that receives donor support is managed and monitored as an independently-viable business, or with potential to become viable, with effective operations, clear claims monitoring, and sound financial and risk management policies.
- Condition support to microinsurance providers around transparent reporting and defined benchmarks to ensure real value to clients and achieve sustainability.
- Measure the effectiveness of service provision, including marketing, distribution, and consumer recourse to ensure that clients understand the product and can make informed choices.
- Underwrite the cost of studying the impact of microinsurance on client's risk-management behaviour and socio-economic status.
- Approach microinsurance with a long-term perspective, planning interventions with clear and time bound exit strategies.
- Coordinate with other donors, policy makers, regulators and supervisors, public institutions, and the private sector to draw on comparative strengths and build an inclusive microinsurance market.

Donors should not...

- Directly subsidize premiums or claims costs. This will lead to unsustainable programs and to potential backlash from consumers when the subsidy is removed. (An exception may be when subsidies are targeted for certain risks and vulnerable groups).
- Subsidize what the private sector would be willing to do on its own.
- Encourage an institution or delivery channel to take on any insurance risk that it cannot manage. Insurance is a specialized and high risk activity.
- Engage in advocacy at the macro level unless the donor has the right technical skills, field presence, strong influencing capacity, and the trust of governments.

advocates, and setting a pro—poor policy agenda.

Donors need to consider the total insurance market when designing their interventions, while remaining centred on the needs of the client. This note analyses the microinsurance market along the client, the micro, the meso, and the macro levels. The Notes examines 1) how donors have supported microinsurance to date, and 2) how they can enhance their effectiveness. It offers Lessons Learned and Recommendations.

Finally, effective donor support is possible only if donors evaluate their own internal capabilities and comparative advantages before deciding whether and how to support microinsurance.

Source: Chandani, Taara, 2008: Lessons and Recommendations for Donors Supporting Microinsurance. USAID/Microinsurance Network, www.microinsurancenet.org

Case Study Focus

CIC KENYA: EXPERIENCE WITH POST-CRISIS INSURANCE

The Cooperative Insurance Company (CIC) of Kenya is owned wholly by the co-operative movement in Kenya. It was established in 1978 and ranks in terms of market share number 7 out of the 43 insurance companies. It is the market leader in group life and pioneer in the development of microinsurance in Kenya, and also one of the very few surviving co-operative insurers in Kenya.

CIC Kenya's close relationship with the co-operative movement has enabled the company to develop suitable insurance products and marketing structures for co-operatives and has replicated this expertise and experience to the microfinance and small and microenterprises.

December 2007 in Kenya was marked with country wide protests and chaos out of a flawed election process. The disputed presidential elections triggered

unprecedented widespread chaos throughout the country and had a slow-down effect on the general economy in the first quarter of 2008. Equally, the destruction of property and loss of life occasioned by the post election violence had adverse effect on insurance companies. CIC in particular, being a major player in the microfinance sector, was adversely affected since most of the affected people were small and micro finance entrepreneurs who are clients of micro credit units of Co-operative Bank, SACCOs and other micro finance institutions.

Politically related commotions and losses arising from the same are specifically excluded from all insurance contracts, a fact that put the Kenyan underwriters in an awkward position after the post election chaos of December 2007. Not only were the claims inadmissible but they were

also of catastrophic nature due to the magnitude of the violence.

CIC Kenya being an indigenous company wholly owned by the co-operative movement and insurance of choice for the microfinance sector decided to honor all the post election related claims, due to the fact that they mostly affected the low income households insured either under the umbrella of the co-operative movement and the small businesses insured under the unique microinsurance arrangement. This was a show of commitment to the cooperative values.

CIC Kenya received a total of Kshs. 81,794,675 (USD 1,049,322.32) claims broken down as Kshs. 78,677,230 (USD 1,009,329.44) in general insurance and Kshs. 3,117,445 (USD 39,992.34) in life insurance.

Though CIC Kenya took the bold and unprecedented step to settle these claims, there were major challenges experienced due to the nature of the claims. However, CIC in keeping with their drive “we keep our word” sought to settle the claims:

- Out of the total claims Kshs 2,032,790 (USD 26,000) fully documented life claims have been paid and the Kshs. 1,084,655 (USD 14,000) reserved awaiting full documentation.
- Out of the general insurance claims, a total of Kshs. 59,103,002 (USD 758,216.85) has already been paid while Kshs.19,574,228 (USD 251,112.61) is reserved awaiting full documentation.

The payment for the life claims was made easier by the fact that no adjusters’ reports were required, and neither were there any large single claims that would raise complications with the re-insurers. This was unfortunately not the case with the general claims. Besides the many challenges faced by adjusters while trying to establish the

Division	Insured	Paid Out / Reserved Claims	
		KSH	USD*
General Insurance - (Fire, Looting, Domestic, Motor etc)	Institutions	67,239,366.00	862,596.10
	Individuals	11,437,864.00	146,733.34
Life (Savings and Loans)	Institutions (SACCOs, MFIs, Banks covering loanees)	3,117,445.00	39,992.88
Total		81,794,675.00	1,049,322.32

* 1 USD = KSH 77.95

validity and extent of the damages, there were major issues with the re-insurers because the losses were associated with post election violence. Besides, the claims that were considered by the re-insurers have been honored under the catastrophic excess of loss treaty, which poses the challenge of defining what catastrophic loss is in this case, since the losses did not necessarily arise out of one event but many events spreading over a period of time. As a result, the re-insurers have only agreed

to make a 50% ex gratia payment on a “per case basis”. Further, the re-insurers treated losses from each location hit by the violence as one case, yet CIC had many small cases of up to Kshs. 50 million (US\$ 641,436) especially from the co-operative bank clients spread throughout the country.

Source: Charles Mutua – Swedish Cooperative Centre, Regional Office for Eastern Africa: www.sccportal.org
More Information on CIC Kenya: www.cic.co.ke

Selected Info

New Publications

Implementing Health Insurance through Micro-credit: A Case Study of SKS Microfinance, India

Chen, T., Comfort, A. & Bau, N., 2008, published by Centre for Micro Finance (CMF/IFMR). This paper describes the experience of SKS Microfinance, India’s third largest MFI in launching a mandatory catastrophic health insurance policy in Karnataka, India, and expanding it across all branches. This report documents the entire process at SKS, from conceptualization and product development to roll-out, including operational processes and challenges, and is part of a larger impact evaluation research project that seeks to assess the impact of providing health insurance with microcredit on poor households’ economic, social and health outcomes.

Download from www.microfinancegateway.com/files/51839_file_chen_et_al_implementing_health_insurance_through_micro_credit.pdf

Health Insurance In Low-Income Countries: Where Is The Evidence That It Works?

Berkhout, E. and Oostingh, H., May 2008, published by Oxfam Novib. A recent Joint NGO Briefing Paper describes different health insurance mechanisms and the success or failure of these to deliver health rights particularly for people living in poverty. The paper shows that although health insurance can have a positive effect on access to health services and on reducing (catastrophic) health expenditure for some parts of the population, it can also pose a threat to equity and efficiency of health systems.

Download from www.oxfam.org.uk/resources/policy/health/bp112_health_insurance.html

Innovation Flash 1

Microinsurance Innovation Facility, November 2008. This newsletter published by the Microinsurance Innovation Facility includes information about available grants, grantees and general microinsurance news. The newsletter is available in English, French and Spanish.

Download from www.ilo.org/public/english/employment/mifacility/download/news/news1_en.pdf

Subscribe to the newsletter **Innovation Flash** by sending an email to microinsurancemedia@ilo.org

G-NEWS No. 4: Social security extension and microinsurance Newsletter

ILO/STEP, September 2008. The fourth issue of G-NEWS presents, amongst others, the latest news and resources issued by the ILO’s Social Security Department and a wide range of upcoming events related to microinsurance and social security.

Download from www.ilo.org/gimi/RessShowRessource.do?ressourceId=6574

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Prosper Nr. 4

ICMIF, November 2008. This fourth issue of this newsletter Prosper features an article on Preventing HIV/AIDS in the Dominican Republic and news about ICMIF’s development activities and events as well as updates from its members.

Download from www.icmif.org/doc_store/prosper/Prosper4.pdf

Subscribe to the newsletter **Prosper** by sending an email to sabbir@icmif.org

New publications from the Microinsurance Network

Agricultural Microinsurance - Global Practices and Prospects

Roth, Jim and Michael McCord, 2008, published by The MicroInsurance Centre, LLC

This paper has been written with the support of the Ford Foundation and is for people who would like to know how agricultural insurance could play a role in improving the livelihoods of the rural poor. It will be useful for development agents such as donors, development banks and development workers in NGOs, co-operatives, credit unions and microfinance institutions (MFIs). It is written for a reader who has no prior knowledge of insurance. Discusses the principles of insurance, presents four different case studies and a comprehensive literary review, and concludes by looking at what kinds of microinsurance interventions are most likely to succeed in improving rural livelihoods.

Download from www.microinsurancenet.org

Other News

The **World Bank** will hold a conference entitled **Expanding Access to Insurance for the Poor in East and Southern Africa**, from 2-4 March 2009 in Uganda. Contact Colleen Mascenik at cmascenik@worldbank.org

The **Microinsurance Innovation Facility** is actively engaged in action research with its grantees and provides research grants to academics. To guide the research, the Facility has developed a **research strategy for 2008-2012** with help from various stakeholders.

Available at www.ilo.org/public/english/employment/mifacility/activities/research.htm

News from the Working Group

Focus on ... Impact Working Group

The Impact Working Group was set up in 2007 and focuses on the impact of microinsurance on the client, especially in terms of financial protection, in the context of the discussion about microinsurance providing real value for the poor.

It looks at the impact of **[product or process of]** microinsurance on **[level]** with regard to **[dimension]**

[product or process of]: health, crop, credit-life, ... microinsurance

[level]: individual, household, enterprise, community, institution

[dimension]: e.g. financial protection, access to care, ...

The Impact Working Group is today composed by Network members from Macif, the Financial Access Initiative (NYU), Microinsurance Innovation Facility, Microfinance Opportunities, USAID, CGSI – Consulting, IADB and its MIF initiative, AAC / MIS, SDC, Munich Re Foundation, and is lead by the Micro Insurance Academy.

Its main planned activities are: Review and take stock of current impact research; compile impact assessment framework; draft methodological guidelines in order to provide a benchmark for quality microinsurance impact methodology; and advocate for more impact research.

The first findings from a literature review on Microinsurance Impact Research is that only 25 articles could be identified and that most work on the subject are rather evaluation or feasibility studies than impact studies. The finalised review will be published in 2009.

Other activities planned for 2009:

- Mapping exercise of existing impact studies;
- Survey of organisations involved in impact studies to scope best practices;
- Circulate a draft impact framework;
- Set up a network of experts to develop methodological guidelines for all dimensions in order to enhance quality research and serve as benchmark;
- Publication and Dissemination of results and studies.

For more information, contact Ralf Radermacher at ralf@mia.org.in

Microinsurance Network: New Web Address and Listserv

Web Address: Make sure that your bookmarks or links to our website are updated: The website address (url) of the Microinsurance Network has been changed to www.microinsurancenet.org

Listserv: The Microinsurance Network launches a new listserv called **Microinsurance Focus** with the objective to encourage the exchange of information and stimulate discussions. The listserv can be used for news items, announcements and discussions related to microinsurance.

To subscribe to Microinsurance Focus: <http://lists.microfinance.lu/mailman/listinfo/microinsurancefocus>

To post a message: microinsurancefocus@microfinance.lu

To read archived posts: <http://lists.microfinance.lu/pipermail/microinsurancefocus/>

Microinsurance Network

The Microinsurance Network was launched on November 8, 2008 in Cartagena, Colombia. This new network will substitute the CGAP Working Group on Microinsurance. It seeks to remain a member-based network of insurance and social protection providers, policymakers, funders and academics. As of today, it has 76 members from all over the world.

Mission Statement

The mission of the Microinsurance Network is to promote the development and proliferation of good-value insurance products for low-income persons by providing a platform for information sharing and stakeholder coordination with the aim of creating public goods. To achieve that mission the Microinsurance Network:

- Encourages members to commission and conduct research;
- Distills and disseminates lessons learnt to promote client-driven and good-value insurance;
- Raises awareness on the demand and potential for microinsurance among key stakeholders;
- Contributes to the development of good practices for the industry.

Structure

The Microinsurance Network is governed by an Executive Committee, which is composed of Craig Churchill/ILO (chair); Brigitte Klein/GTZ; Sabbir Patel/ICMIF; Alexia Latortue/CGAP; Brandon Matthews/Zurich Financial Services; Sabrina Regent/PlanetGuarantee and Dirk Reinhard/Munich Re Foundation. The Secretariat is serviced by Véronique Faber/ADA and based in Luxembourg.

Several Working Groups will undertake specific operational and technical activities that contribute to the above mentioned mission statement and create public goods. As of today, there are eight Working Groups:

- Agriculture = Focuses on agricultural insurance issues in developing countries
- Capacity Building = Responds to the increased need for capacity building through compiling and developing training materials and programmes striving towards coherent basic quality standards of microinsurance capacity
- NEW! Distribution = Maps out the dynamics of different distribution channels and their specific value for clients
- Health = Works on the specific aspects of health microinsurance, its role in the social protection network and its relation with health providers. It also develops tools to monitor the performance and impact of health microinsurance on clients and providers
- Impact = Based on the real value for the poor discussion, this sub-group focuses on the impact of microinsurance on the client, especially in terms of financial protection
- Performance Indicators = Works to develop standard key performance indicators for microinsurance, improving comparability of schemes for enhanced performance and greater transparency
- Regulation, Supervision And Policy = Focuses on regulatory issues that affect the development of microinsurance products for the poor
- Technology = Focuses on technology as a means to leverage capacity for outreach, dissemination and scaling up while decreasing costs

The activities of the Dissemination Working group will be included in the work plan of the Secretariat.

For more information on the Microinsurance Network, contact veronique.ada@microfinance.lu or visit www.microinsurancenetwork.org