

MICROINSURANCE

Improving risk management for the poor



September 2004

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

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

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

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

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

To receive the coming issues of MICROINSURANCE, please contact insurance@microfinance.lu

Concept

The Risks of Crop Insurance

The threat of climatic shocks, pests, fires, and natural disasters makes managing and mitigating risk an important part of the business of agriculture. In 'developed' countries, modern risk management techniques and crop insurance are widely available. Farmers can count on having 30-70 percent of their crop insurance premiums subsidized by the government.

In developing countries, crop insurance tends to cover only a few crops and benefit a relatively small number of farmers. Governments can't afford the level of subsidy that would be needed to assure wider coverage. Thus, farmers in these countries are more dependent on on-farm techniques to minimize exposure, and on emergency relief to cover losses when catastrophic events occur.

At a roundtable on agriculture risk management at IDB headquarters, experts from the Spanish Agricultural Insurance Agency (ENESA – Entidad Estatal de Seguros Agrarios de España) and representatives from the Ministries of Agriculture of the Dominican Republic, Peru and Uruguay reviewed crop insurance experiences in the United States, Canada, Western Europe and those three Latin American countries.

Most participants agreed that traditional subsidized crop insurance systems, such

as those in the U.S., Canada and Japan, are not sustainable in the long run, especially in low-income countries, most of which face serious fiscal constraints.

ENESA representatives championed a mixed private-public partnership that includes heavy reliance on subsidies. From the point of view of the state, they argued, the cost of subsidizing is typically less than the cost of providing emergency relief after a disaster has occurred. The key to this system, however, is the requirement that all farmers must purchase insurance to be eligible for disaster relief.

Some participants argued that traditional multiple peril crop insurance is inherently unsustainable and plagued with moral hazard, such as false claims. Many of these schemes in both 'developed' and developing countries generate political rent seeking and tend to benefit the better-off farmers. In the context of low and middle-income developing countries, additional weaknesses in information and legal infrastructure make design and operation of this type of insurance even more difficult.

There is also the additional challenge of demographics. In developing countries, where farmers can exceed 30 percent of the total population, schemes that make it mandatory to purchase crop insurance

The Risks of Crop Insurance	1
Case Study: COLUMNA.....	2
Case Study: SERVIPERU.....	3
Terms and definitions	4
Latest publications.....	5
About an insurance company.....	5
News from the Working Group	6
Events.....	6

would be unworkable, from the perspective of both farmers and the government. In Europe and other developed countries, farmers tend to make up less than 7 percent of the population, so resources for subsidies are far less burdensome.

Two other models were presented as alternatives. Juan Carlos Cortés, president of the Mexican crop insurance company ProAgro, suggested that private insurers can profitably and sustainably underwrite multiple peril products by carefully designing products to minimize the risk of moral hazard. This would require highly skilled staff, extensive information systems, and statistical modeling. The other approach advocates experimenting with parametric instruments that tie indemnity payments to an easily observable trigger such as rainfall or temperature. These instruments completely eliminate moral hazard and dramatically lower administration costs associated with monitoring and making claim adjustments. This alternative would require a massive amount

of information to design, as well as reliable and secure sensing devices.

The question of how to design an efficient and cost-effective risk management program to benefit a large number of rural agricultural producers remains unanswered. A number of countries are trying new crop insurance initiatives and experiments, but conclusive results are not in yet. Mark

Wenner, a financial specialist at the IDB, urged that caution is needed. 'Industrial countries can afford large subsidy outlays without too much fiscal strain, but for a struggling developing country you are in the position of robbing St. Peter to pay St. Paul,' he argued. 'Do I build a rural road, build a rural school, build a hospital, or finance a crop insurance scheme when

there is only enough public money to do one of the things on the list?'

Info: http://www.iadb.org/NEWS/Display/WS-View.cfm?WS_Num=ws05104&Language=English

Source: *Inter-American Development Bank, April 2004.*

Case Study

COLUMNNA, Compañía de Seguros S.A. – GUATEMALA

Social Security in Guatemala

The Institute of Social Security, created in 1946, established different protection and benefits schemes (accident and illness at work, maternity, general illness, disability, orphan-hood, widowhood and death). However, only employees with a fixed contract (appearing on a company's PAYE – formal economy and civil servants) could be members of the IGSS. Therefore, entrepreneurs and employees of the informal economy, self-employed, housewives, unemployed and servants do not benefit from social security and are unprotected from the main health and death risks.

Moreover, there is no promotion or direct assistance from the State to social groups belonging to the popular economy (cooperatives, microcredits, non-governmental organizations) or the informal economy in relation to risk management. The only State involvement in insurance consists of regulating the activities of this sector through the Bank Superintendence of Guatemala.

There are many businesses from both the informal sector and the formal sector of the economy that don't have any type of insurance. At the end of 1998, there were 1.639.127 productive units in non-agricultural activities and 1.652.680 productive units in agricultural activities¹.

COLUMNNA's Creation

COLUMNNA is the only insurance company that focused on the popular sector of the economy. The company has its origins in the Guatemalan National Federation of Credit Unions (FENACOAC), which since

1970 has been responsible for the management of a group life insurance scheme - savings and funeral expenses – for the cooperatives' members. Later, in 1994 this federation and nine member cooperatives created COLUMNNA that started its life insurance operations on 1st November 1994 and from 1st September 1996 has also been offering non-life insurance.

The Clients

Nearly 90% are related to the 35 Credit Unions affiliated to FENACOAC, which in total have half a million members. 90% of these credit union members live in rural areas, some are employees with a salary, housewives, and others work for small businesses, local commerce, in agriculture and craftsmanship. Cooperative members have, through COLUMNNA, a life insurance policy protecting their savings, contributions and credit balances. Around 54,000 of them also have a microinsurance policy for funeral services and accident cover called 'Plan de Vida Especial' (Special Life Plan).

'Plan de Vida Especial'

It is a group life insurance product (its premium is paid annually) that offers a benefit (between 1.235 and US\$ 6.173) in case of death, mainly to cover funeral services and an additional sum to cover accidental death or disability following an accident. The product is marketed and distributed mainly through the cooperatives affiliated to FENACOAC, benefiting from a large geographical cover around the country.

Claims are managed through the cooperatives that sell the policies and the settlement takes around 30 days. This plan offers the possibility of receiving a cash advance equivalent to 50% of the benefit at the time of death through the cooperative. However, in some cooperatives this option has been difficult to implement.

With regards to customer satisfaction, members feel that the product's benefits are acceptable. However, they would like to have health care included because at present their lack of access to hospital services and health care for them and their families represents a problem. The impact of microinsurance on other sectors has been very small. Some governmental organizations, insurance companies and institutions of popular base have acknowledged COLUMNNA's good work within credit unions by introducing group insurance into rural populations with low income. In spite of this, COLUMNNA's experience has not been recreated in other sectors.

Main lessons

- The organizations that reunite large groups of people have great potential to introduce microinsurance to them. Therefore, the development of microinsurance within a large sector of the population should be done through such organizations.
- It is necessary to have a commitment from senior management (president, CEO and board) and the organizations that reunite large groups of population (cooperatives) to promote and distribute microinsurance products.

¹ Data from the National Institute of Statistics. In 2002, the population of Guatemala reached 11.237.196 persons.

- The product must be simple and benefits should be in line with an affordable monthly premium for the targeted customers. There should also be different premium and benefit levels to suit members depending on their needs and income.
- Sales personnel must receive adequate training to promote and to offer relevant information about microinsurance.
- Printed promotional material should be

simple to understand.

- The intermediary organizations (cooperatives) should receive financial incentives (commission). The insurance company must establish a mutually beneficial business relationship with the cooperative, which acts as marketing/distribution channel.

- The cooperative's administrative procedures regarding insurance products

should be simple and computerized, so that employees can easily generate the appropriate paperwork to hand out to customers in relation to type of policy, payments and claims.

- The insurance company should be monitoring the development of the microinsurance marketing/distribution program within the cooperative organizations on a regular basis.

'PLAN DE VIDA ESPECIAL' - RESULTS: Years 2000 - 2003 (Amounts in Dollars)²

	Year 2003	Year 2002	Year 2001	Year 2000
Net Subscribed Premium	504 849	380 325	281 841	250 429
Disasters	196 035	149 232	146 638	62 889
Acquisition Costs	70 679	53 245	39 458	35 060
Administration Costs	86 631	65 263	48 363	42 973
Reinsurance Costs	18 527	13 957	10 343	9 190
Technical Utility	132 976	98 627	37 039	100 316
% Disasters / Premium	39%	39%	52%	25%
% Total Costs / Premium	35%	35%	35%	35%
% Total Utility / Premium	26%	26%	13%	40%
Total	100%	100%	100%	100%

Source: C. Herrera & B. Miranda, *Good and Bad Practices in Microinsurance*, Project managed by ILO with a financing of SIDA, GTZ y DFID – The Case Study of CO-LUMNA Guatemala, May 2004.

Case Study

SERVIPERÚ – PERÚ

Economic crisis, structural adjustments, new capital requirements

At the end of the eighties and during the first years of the nineties, Peru suffered a very severe economic crisis that led to the implementation of strong measures in terms of structural adjustments in order to achieve macroeconomic stability in the country. In this context with new types of microfinancial institutions, some sectors of the population that previously hadn't had access to credit, found in these new microfinancial institutions funding alter-

natives in line with their circumstances, allowing them a gradual development.

However, the development achieved in microcredit didn't result in insurance growth for this sector and a new insurance law issued in 1993 didn't promote insurance products for the microeconomic sectors. The new capital requirements together with a market loss increased the difficulties and the negative impact on many cooperative companies to offer protection services. Some insurance com-

panies merged and other insurers left the market.

Reaction: from SEGUROSCOOP to Serviperú...

SEGUROSCOOP cooperative insurer was created in 1966. It was the result of an initiative by the Federation of Credit Unions to replace the insurance offered by CUNA MUTUAL on the portfolios of its cooperatives. Its main products were life insurance covering loans and savings

² Conversion realized with an exchange rate of 1 US\$ = 8,03 Q., Dec-31-2003. Web Site Banco de Guatemala. www.banguat.gob.gt/

and also general insurance protecting the property and goods of cooperatives.

From October 1994, Serviperú went through an interesting transformation, which led to several changes in the years to follow:

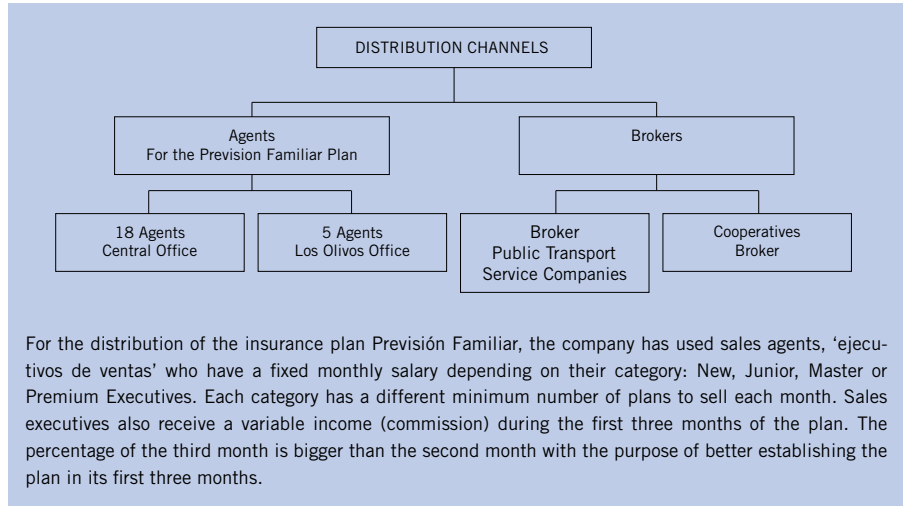
- A subsidiary company 'Serviperú Asesores y Corredores De Seguros' was created to manage the insurance product 'Previsión Familia',
- The insurance portfolio was transferred to an insurance company, with an agreement on profit sharing,
- The Board agreed that the new social objective of the Cooperative would be developed by two 'Divisions':
 - Health Services Division, responsible for the 'Medical Center Servisalud'.
 - Funeral Services Division for the management of the 'Funerales Los Olivos' (Funeral Services Los Olivos).

The company's main target market was that sector of the population with low economic resources. During the last decade, the development and consolidation of this transformation has seen many good practices but also some limitations.

Crises should be seen as opportunities for growth...

Key lessons and reactions can be identified by analyzing Serviperú's decisions:

- To analyze the options to continue operating and avoid liquidation. It saw in its insurance portfolio that has built for many years, an important strength; it decided to create a subsidiary insurance brokerage to work with its portfolio.
- To search a strategic alliance with an insurer in order to continue offering insurance services to its clients and to develop new services and new business in the future.
- To think, in ceasing to operate as an insurer, about the development of a new service and business line (to create a funeral services company), which would be based on the previous experience as provider of funeral insurance – given in the form of a payment – for many years before.
- As part of the management and operating teams, to identify themselves with the new projects – this meant a team working attitude, a strong commitment and even economic sacrifice in the first year.



For the distribution of the insurance plan Previsión Familiar, the company has used sales agents, 'ejecutivos de ventas' who have a fixed monthly salary depending on their category: New, Junior, Master or Premium Executives. Each category has a different minimum number of plans to sell each month. Sales executives also receive a variable income (commission) during the first three months of the plan. The percentage of the third month is bigger than the second month with the purpose of better establishing the plan in its first three months.

Positive factors

- An important factor in the development of new projects was to explore, know and share the experience of other cooperative organizations in this type of project, and to get access to technical assistance for the development of this project.
- The creation of a microinsurance product like Previsión Familiar gave people with low income, through low monthly payments, access to funeral and health services to the insured and its family.
- The development and consolidation of its first project (Funeral Services) before developing others (The Medical Center) contributed Serviperú's favorable image.
- The new health services that were being developed were incorporated as additional cover to the existing microinsurance product Previsión Familiar, which led to the progressive improvement of this product.
- Previsión Familiar is different from other insurance plans offering a fixed payment or a reimbursement of expenses in that most of the benefits are given by Serviperú. A maximization of the efficiency and quality of its services encouraged the perception of the brand 'Previsión Familiar' as a good product that would be recommended by existing clients to other potential clients.
- The practice of offering a service instead of a payment or reimbursement of expenses had been adopted in order to encourage the population with low income to buy this microinsurance plan.
- In the search for efficiency in the running of the Medical Center, an important

factor has been the control and monitoring of costs and being able to pay the doctors' salaries in relation to the number of consultations they provided.

Main obstacles...

- The sectors of the population to which this product was focused have unstable income, causing more frequent policy expiries or cancellations and higher premium collection and renewal costs. It is necessary to have a large base of clients with more stable income....
- The development of the Medical Center is a costly project and had been consolidated gradually according to the funds available and the donations received.
- Basing its benefits mainly on services offered in its own premises created a limitation on geographical expansion.
- Cooperatives have given very little support to this microinsurance product and have not promoted it amongst their members; around 90% of people insured are not members of a cooperative organization.

Source: B. Miranda & M. Rodríguez, *Good and Bad Practices in Microinsurance, Project managed by ILO with a financing of SIDA, GTZ y DFID – The Case Study of SERVIPERÚ, November 2003.*

Terms and definitions

Experience rating: Determination of the premium rate for a risk made partially or wholly on the basis of that risk's past claim experience.

Law of large numbers: Concept that the greater the number of exposures, the more closely will actual results approach the probable results expected from an infinite number of exposures.

Management information system: Computerised and manual methods for keeping track of the data required for designing, delivering and monitoring the performance of insurance products.

Source: *Making Insurance Work for Microfinance Institutions*, ILO, 200

Selected Info

Latest publications

Micro-assurance et soins de santé dans le Tiers-Monde. Au-delà des frontières. P. Develtere, G. Doyen & B. Fonteneau, Cera Foundation, Belgique, 2004, 59 p.

Microinsurance and Health Care in the Developing World. Beyond the Borders.

Info: <http://www.cera.be/fr/publi/detail.asp>

Quelles articulations entre politique de santé et micro-assurance ? Réflexions à partir du projet de micro-assurance santé du Gret au Cambodge. C. Poursat, Les Documents de Travail de la Direction Scientifique/Coopérer Aujourd'hui, n° 37, Gret, Paris, 2004, 33 p.

Articulations between Health Policy and Microinsurance? Reflections on a Health Microinsurance Project by Gret in Cambodia.

In rural Cambodia, health problems represent one of the most important causes of debt and poverty. Since 1998, Gret ('Groupe de Recherche et d'Echange Technologiques) tests a health microinsurance system, discovering that the implementation of a health care system was necessary and could provide a health care quality to the insured people through better financing of health care centres. At the same time, the Ministry of Health is working on a new health policy.

Info: <http://www.gret.org/>

Product Guide - 'ANIDASO' Insurance Policy for Low-Income Market Segment in Ghana. CARE International in Ghana, February 2004, 26 p.

Info: llawson@firstnet.bj

Microinsurance Sector Study: Sri Lanka. M. Wiedmaier-Pfister & E. Wohlner, Eschborn, 2004.

Info: <http://www.gtz.de/themen/economic-development/download/MicroinsuranceSriLanka.pdf>

Selected Info

About an insurance company

'Primero mi Familia', Seguros La Equidad, Colombia.

Founded in 1970, La Equidad offers insurance services to more than three million Colombians, who are members of 3.574 cooperatives, 1.475 employee funds and 172 associations. La Equidad is currently expanding its services to 100 small and poor communities outside Bogotá, with specially adapted products, using for the first time own agents for marketing, rather than relying on members.

The new product developed by La Equidad is called 'Primero Mi Familia' ('My Family First'), which is an individual insurance life product. The insured amount - between 1.766 and 3.532 USD - depends on the monthly premium rate - 4,47 or 8,11 USD. The policy provides the possibility to receive the payment in advance for 50% of the indemnity in case of serious disease to pay medical costs. In case of death, the indemnity will be paid to an indicated beneficiary. The policy allows special cover: a monthly payment to cover child education costs (during 24 months), a monthly amount for basic food ('foodvouchers'), for public service payments, or for medical and/or funeral costs of children.

La Equidad provides also other microinsurance products like 'Amparar' and 'Equi-empresa'.

More information: <http://www.laequidad.com.co/casa.htm>

Source: *The Americas Association of Cooperative /Mutual Insurance Societies, Case studies from Colombia and Dominican Republic, 2004, 24 p.*

<http://www.coopdevelopmentcenter.coop/CDP%20case%20studies/AACMIS%20Case%20Study.pdf>

Events

The **Forum 2004 of the 'Concertation entre les acteurs du développement des mutuelles de santé en Afrique'** will be held on November 17-19, 2004 in Bamako (Mali). The central topic is the development of health mutual insurance companies through improving their performance and cooperation with the institutional framework.

Info: <http://www.concertation.org/atelier/forum2004.htm>

Making Insurance Work for Microfinance Institutions - A Course on Developing and Delivering Microinsurance.

The next training course will be announced at http://www.international.bankakademie.de/Navigator/International_Products/Show

YASIRU Mutual Provident Society Ltd.,

created in Sri Lanka not long ago, provides an affordable cover to the poor for sickness, disability and death through its service 'Risk Management by the Poor'.

Info: accdc@sltnet.lk

News from the Working Group

Annual meeting of the Working Group

In June, 2004, Luxembourg's Ministry of Foreign Affairs and ADA hosted the CGAP Working Group on Microinsurance. The event was attended by 25 persons, including representatives from SIDA, GTZ, ILO and the CGAP secretariat. Special guest was Mr. Tapas Kumar Banerjee, a senior official from the Indian Regulatory and Development Authority.

The highlights of the meeting include:

- The Operations Group has completed microinsurance case studies in Peru (Serviperú), Poland (TUW SKOK), Guatemala (Columna), Malawi (MUSCCO), Bangladesh (Delta Life), Philippines (CARD Mutual Benefit Association) and Vietnam (TYM). These will be published later this year. Additional 8-12 case studies will also be completed within the next year. This project is managed by ILO with funding from SIDA, GTZ and DFID.
- The Regulation Group, led by GTZ, has just completed a desk study on microinsurance regulations. The group is planning to conduct three country case studies on how the regulatory environment can inhibit or promote the availability of insurance products to the poor.
- The Demand Group, coordinated by Microfinance Opportunities, presented its action plan for the coming year, focusing on the development of a consistent set of tools for assessing poor people's risk management options.
- The Dissemination Group, led by ADA, has published three well received issues of a microinsurance newsletter and will, during the coming year, develop the Microinsurance Focus website and organize a workshop for the third quarter of 2005.

For more details on the Working Group, to receive the MicroInsurance Newsletter, the regulation desk study or the Preliminary Donor Guidelines on Microinsurance, visit Microinsurance Focus.

www.microfinancegateway.org/section/resourcecenters/microinsurance/