Research Note on Insurance Schemes [1]

[1] This document has been prepared by the United Nations Development Programme's İstanbul International Center for Private Sector in Development for the G20 Global Platform on Inclusive Business. For more information, contact: Sahba Sobhani, Programme Advisor-Private Sector, UNDP at sahba.sobhani@undp.org

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Introduction

Insurance programmes for people at the bottom of the economic pyramid (BOP) empower them to participate in markets by protecting them against risks such as illness, injury, damage, or loss. People at the BOP are often more vulnerable to such risks because they are less able to cope with the financial burden caused by unexpected occurrences. Despite this, the BOP is typically ignored by mainstream commercial insurers. Micro-insurance schemes are built to cover people excluded from statutory social security, especially workers in the informal economy and their families. Governments can share the risk of covering BOP communities by: providing fully or partially subsidized coverage for specific services; or paying customers' premiums and entrusting private-sector insurers with insurance coverage.

Insurable risks should have a low probability of occurrence, yet strong adverse consequences if the risk does occur. This is where risk-pooling mechanisms come into play. Since part of the individual risk is borne by the entire group of policyholders, individual risk premiums can be relatively low in relation to the size of a potential loss; the more frequent the loss occurs, the more difficult it becomes to insure. The greater the chance of an event occurring, the closer premiums will be to the amount of a potential loss, which means that the event will no longer be insurable at a price that clients find acceptable.

Risks are uncertain events (e.g. drought) or outcomes (e.g. famine). When a risk occurs, it can damage people's well-being. A risk's occurrence with a negative impact is called an adverse event or a shock. Uncertainty may relate to:

- The occurrence (will the adverse event occur?)
- The timing of the event (when will it occur?)
- The severity of the shock (will the shock be serious or minor?)
- Its duration (how long will the shock last?)
- Its frequency (how often will it occur?)

In developing countries, many households and communities face multiple risks, but workers in the informal economy and their families, poor people and those with low incomes are particularly exposed to – and negatively affected by – the impact of:

Natural risks, such as drought, flood, erratic monsoon rains, crop pests and fire that can cause loss of assets including loss of work premises and tools;

- Environmental risks such as problems associated with deforestation and pollution;
- Health risks such as sickness, complications with child delivery and epidemics;
- Life-cycle risks such as old-age and death;

- Economic risks such as unemployment, business or harvest failure, loss of assets and death of livestock;
- Policy-based and institutional risks such as a lack of legislation to protect workers, insufficient public services (e.g. a lack of healthcare facilities or inappropriate public health care policy) and taxation; and
- Social and political risks such as crime, theft and related loss of assets, gang activity and civil war.[2]

When the potential for such risks is high and the impact is critical for affected individuals and households, micro-insurance can be an effective solution. Micro-insurance not only protects policyholders from potentially devastating risks, but also reduces the burden of such risks on public spending. Insurance schemes can be applied as preventative measures such as preventative healthcare and pre-distributed weather index insurance for expected climate-related losses (see the case study below on El Niño Business Interruption Index Insurance). Or they can be used to help those experiencing risk get back on their feet at a much faster pace. Thus, insurance should improve overall productivity.

Common elements and best practices

How does the instrument work?

Micro-insurance is used to protect low-income people against risks including poor health, death of family members, index-based (climate-related) losses and funeral costs. Policies are often – but not exclusively – managed by micro-finance institutions, which have direct access to the low-income individuals for whom the programmes are designed. Recently however, other distribution models have developed in response to the need for more innovative and appropriate solutions for the target consumers.

Although micro-insurance schemes have a low profit margin, they can be profitable and sustainable simply due to the high volume of potential consumers. The specifics may vary depending on the type of insurance policy (health, index-based, etc.), but the basic principles remain the same.

The Micro-insurance Network[3] has identified five major distribution models for micro-insurance:

Partner-agent model

The dominant format for micro-insurance distribution is the partner-agent model, in which a regulated insurance company underwrites and offers a micro-insurance product, while the product is delivered through separate channels. Delivery channels can include a wide range of organizations. Traditionally, microfinance institutions (MFIs) have been responsible for delivery; however more recently, innovative and alternative delivery channels have begun to emerge, including retailers (cash- and credit-based), utility and telecommunications companies, and third-party bill-payment services. Affinity groups such as religious institutions are also common in some contexts. All of these delivery channels have an existing tie to low-income populations, although the strength of that tie varies greatly along with the particular distribution arrangements.

The motivation for the partner-agent model is to leverage the strengths of both parties. This partnership allows the product to reach a segment of the population that would be difficult – or even impossible – to access without a partner that had ties to the target market. Insurers typically lack the trust of the market as well as an understanding of their clients. This hinders their ability to sell within this market. By partnering with organizations that already work with the low-income market, insurers can leverage the

[2] International Labour Organization (ILO). 2006. The Role of Micro-Insurance as a Tool to Face Risks in the Context of Social Protection: http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---soc_sec/documents/instructionalmaterial/wcms_secsoc_93.pdf.
[3] http://www.micro-insurancenetwork.org/micro-insurance/key-concepts/models-micro-insurance-provision#sthash.py3ZRFyY.dpuf

trust and access developed by the delivery channel, and the knowledge of their clients that these channels bring. At the same time, the model places the risk-bearing function on a regulated insurance company that is best equipped to manage risk while allowing the delivery channels to focus on their core functions and serve clients.

Mutuals, cooperatives, and other community-based models

In the mutual model, the insurer is owned by clients (members), who share in the benefits and costs of the insurance operations – often with members' liability limited to their premium contributions. Cooperative insurers may – but need not – be owned by clients. These models have similar characteristics, including involvement of insurance clients in management, and often serve pre-existing groups such as borrowers from a credit and savings cooperative or MFI, or residents of a specific geographic area.

Many lending organizations offer borrower's insurance contracts that cover the balance of a loan to be paid back. They may also offer life insurance, and some provide housing, funeral, disability and accident policies in addition to mainstream credit and savings services.

In sub-Saharan Africa, many mutual health insurances have been created on the basis of voluntary membership. In exchange for the premiums they send to a fund, policyholders are entitled to certain benefits. The community has an important role in designing and managing these programme.

All-in-one insurance model

Organizations such as MFIs and insurance companies can also sell their policies directly to poor people through agents who are paid salaries, sales commissions or both. In this model, the same entity (sometimes a licensed insurer and sometimes not) bears all costs and risks associated with the product, and performs all distribution and servicing functions.

Franchise model

In this model, the professional insurer franchises his or her license, assigning part of the capital to the licensee through a reinsurance treaty. The licensee is charged with designing the product, setting the prices and handling the losses and gains.

Supplier model

This model implies that the insurer (whether formal or informal) provides all or part of the covered services such as healthcare or funeral services. By providing a tool to finance use of the covered services, the supplier is able to increase access to – and demand for – these services. At the same time, the supplier has control of the quality of the service provided, which is a crucial element in client satisfaction and retention. The major drawback of this model is the potential inadequacy of service providers to bear the necessary risk or perform other functions required of an insurer, especially if it is informal. In certain countries regulatory restrictions to this model also exist.

What are the design options?

Offering micro-insurance is a complex business, which requires thoughtful design and management to ensure that the products and procedures are appropriate and sustainable. Insurance schemes vary considerably, not only among types of insurance, but also based on external conditions and context. However, there are several aspects of insurance schemes that are common to all. In some cases, all of the functions are managed by one organization; in other cases, they are shared by two or more organizations (e.g. partner-agent agreements).

The following paragraphs list of the features that anyone involved in micro-insurance design should consider according to their unique situations since the parameters chosen affect the processes of sales and service, and the maintenance of stability. This list should be considered an introduction to the key design options in micro-insurance schemes.

Product manufacturing
The first step to consider is product manufacturing, which involves defining several elements: the specific target client group, the demand for insurance, the composition of the benefit package, pricing, the healthcare providers, and the controls for moral hazard and adverse selection. The abstract dimension includes sustainable pricing that guarantees the stability of the scheme, as well as reliable claims management and the satisfaction of clients' demand for security (Albrecht, 1992). The actual design of the product lays the foundation for this abstract dimension.

Define the target group

The first step in product manufacturing is to define the target group. Depending on the type of insurance, a number of different factors could come into play at this stage; whatever the criteria, it is important to select the target group in a way that is conducive to group cohesion. If there are no strong ties or there is a low degree of social capital among group members, they are more likely to display selfish behavior, including higher degrees of moral hazard and adverse selection, as well as a lower level of renewals after a year with no claims.

Define benefit package

Defining the benefits of the product and the premium required to obtain these benefits makes up the core of product manufacturing. Both aspects determine the market opportunities for the product and the balance between the needs and wishes of the target group. Aggregating risks through pooling is the key rationale behind all insurance schemes; however, not every risk can be pooled. The following preconditions need to be met in order for the risk to be insurable and transferable into an insurance solution.[4]

> Randomness: The occurrence of loss or damage must be unpredictable. Otherwise, systematic saving is a better alternative because risk pooling would not result in lower premiums.
>
> Low probability of occurrence: If the majority of members are likely to incur a loss or damage, premiums will be similar to the cost of individual provision.
>
> Independence of risk: Individuals' collectively insured risks must be independent with regard to their occurrence in order avoid threatening the long-term stability of the insurance.
>
> Uncontrollability of loss or damage: The policyholder should not be able to cause the occurrence of loss or damage.
>
> Unequivocal: The insurer must be able to verify the occurrence and the scope of loss.
>
> Existence of insurable interest: For an individual to be interested in an insurance solution, the loss must have adverse financial consequences. The potential loss should be high in relation to the cost of premium payments.

[4] Churchill, C. 2008. Protecting the Poor: A Microinsurance Compendium. New Delhi, India: Academic Foundation.

Identify providers and sales agents

In addition to defining the benefits, the modes of service delivery and technical procedures need to be established. While the mode of service delivery determines the relationship with providers, the technical procedures define how claims are filed and who may be involved in this process.

Product sales and distribution

The sales and distribution of insurance policies can either be carried about by the insurance providers or by insurance brokers or agents, who are often members of the target group with whom potential consumers can relate.

Pricing for sustainability

One of the key differences between typical insurance policies and micro-insurance policies is the regard for appropriate pricing for the target group. There are several issues to consider when designing a pricing structure for sustainability, including frequency of payments, transaction costs, availability and ease of making payments, and preparations for catastrophic events.

Low-income consumers are often unable to make up-front or regular payments. For example, a monthly premium may not be the best option for farmers who have seasonal incomes. Without regular payments from consumers, micro-insurance providers may not collect enough liquidity to pay off claims. This is particularly the case in catastrophic events, where losses may impact most of the policyholders. Designers of micro-insurance plans must prepare for this risk by partnering with larger 're-insurers' (e.g. Allianz, Munich Re, Swiss Re), which insure the smaller providers against catastrophic risks.

Government subsidization of micro-insurance can have a huge impact on the attractiveness of insurance policies for low-income consumers. Subsidies can reduce the costs of micro-insurance to a level that is affordable for low-income consumers, without reducing the benefits. This is advantageous not only for the policyholders, but also for governments, who can reduce the impact of catastrophic events on their citizens.

The total costs of insurance benefits can be estimated by projecting expected utilization and costs. By adding expected administrative costs, contingency reserves, and in case of a for-profit insurer, profit margin, the insurer can calculate the expected funding needed. In principle, the larger the insurance pool, the lower the administrative cost should be per policy. Premiums should remain stable and constant to avoid undermining policyholders' trust and encourage yearly policy renewals.

Control for moral hazard and adverse selection

Moral hazard and adverse selection are endemic challenges for all insurance schemes, including micro-insurance. The former occurs when policyholders make riskier decisions because they know that they are covered for them. In some cases, this can be beneficial. For example, livestock insurance in China has proven to increase economic activity and incomes for sow farmers since they make riskier decisions that result in higher income.[5] However, this can have very negative consequences for insurance as well. Those with health insurance may make riskier decisions regarding their health because they know that their treatment will be covered. This raises overall healthcare costs, making individual premiums more expensive – even for those who did not make risky health decisions.

[5] Cai, Chen, Fang & Zhou. 2015. The Effect of Microinsurance on Economic Activities: Evidence from a Randomized Field Experiment. The Review of Economics and Statistics, May 2015, 97(2): 287–300.

Adverse selection occurs when pooled risk is much higher than what one would normally find in the general population. This can often be observed in health insurance schemes where those with chronic conditions or unhealthy habits are more likely to purchase insurance policies than those who are healthy. Thus, the average premium will be more expensive since the number and severity of losses will be higher. Insurers have long been searching for the most effective way to avoid moral hazard and adverse selection; however, they must be prudent because the discussion often brings on controversy.

All insurance schemes are very susceptible to fraud and corruption due to the large number of actors and imbalance of information. It is very important to include measures to avoid fraud in the design of micro-insurance. These include establishing numerous verification methods for fraudulent claims, increasing the accountability of all actors and improving the balance of information to help patients make informed decisions and avoid unnecessary health treatments and tests.

Health insurance is particularly vulnerable to fraud since it is characterized by asymmetric information: one party (usually the principal in the classic principal-agent relationship) holds more or better information than another party.[6] For example, healthcare providers know more about the implications of health conditions than patients, while patients know more about their actual conditions than their healthcare providers. This asymmetry makes it very easy for the more informed party to abuse the system to its benefit. Fraud and abuse can be very costly for insurance schemes, and eventually lead to their collapse. Therefore, it is essential that prevention mechanisms be put in place before insurance schemes are launched.

Technical management

Provision of Information

Each sales process starts with the provision of information. Consumers of micro-insurance often lack experience with the concept and require extensive information. Sales agents must be prepared to explain the complexities of insurance in a clear, comprehensive manner in order to attract the attention of potential consumers. This includes explaining the prospective nature of premium payments and the retrospective nature of claims, and why the premium cannot be repaid (at least in full) if no illness occurs.

It is very challenging to explain to an uneducated clientele the idea of advance payments for services that may never be used. For the sake of credibility, someone who has the potential clients' trust, such as a local community leader, should relay the information.

If potential clients are interested in insurance, the salesperson provides detailed information on eligible and excluded services, and the procedure for filing claims. Future clients should be familiar with the required documents and the deadlines that need to be met for successful claims settlement. Unclear procedures or benefits may soon cause dissatisfaction among clients.

Underwriting

In the process of underwriting, necessary data is gathered on the future policyholder. Depending on the design of the insurance product, this may not only include personal data, but also information on potential exclusions (e.g. for health insurance, chronic diseases, and pre-existing conditions) from coverage. This stage may also include a preliminary appraisal; however, some exclusions can be controversial and may undermine the socially driven reasoning behind micro-insurance. Rather than making exclusions, insurance providers may seek to insure a wider pool in order to reduce the overall risk.

[6] Churchill, C. 2008. Protecting the Poor: A Microinsurance Compendium. New Delhi, India: Academic Foundation.

Assistance for claims

The documents necessary for filing a claim need to be checked for completeness and eligibility. To avoid moral hazard and fraud, all claims must be thoroughly scrutinized. This might require information about the policyholder's social environment as well as verification by a physician. Different schemes use different approaches such as smart cards, cashless transfers and third-party administrators.

Complicated documentation makes claims settlement more difficult. Since women are less familiar with official procedures, incomplete documentation may lead to rejection of claims. Combined with low social status and little negotiating power (e.g. with officials), this may make it difficult to obtain the necessary documents.

Management of agreements with clients

The maintenance of long-term client relations includes the continuous provision of information, timely responses to clients' changing demands and problem solving related to the product or procedures. A positive experience with an insurance product will build trust among clients and may induce them to purchase additional benefits for a higher premium. A continuous information flow helps the scheme to maintain client satisfaction and could attract new clients.

An important element of client relations is the renewal of contracts for consecutive years. Most clients' premiums cannot easily be collected by automatic direct debit from a current account. Whenever premiums are collected on a recurring basis, transaction costs are high. Another aspect to consider is the clients who have not filed any claims in the past year. These clients present a real challenge because they need to be convinced that membership still makes sense. Renewal rates in many schemes are low; however the Bangladesh Rural Advancement Committee's micro-health insurance scheme managed to increase its renewal rate from 15 percent in the first year of operation to 50 percent in the third year.[7] Considering that it can be much more expensive to acquire a new customer than to retain an existing client, low retention rates for health micro-insurance pose a serious problem. Nevertheless, some schemes fare quite well.

If clients are well integrated into the system, they will identify with the micro-insurer and be more likely to behave responsibly. This is a particular advantage of community-based schemes. For example, in Uplift Health's mutual insurance scheme, members monitor each other and encourage healthy behavior. If members unnecessarily jeopardize their health, the other members might refuse to renew the person's contract or accord only a partial reimbursement of costs. In other institutional models, similar results can be achieved through claims committees consisting of policyholders and knowledgeable employees of the insurer. In general, when policyholders assume responsibility for the scheme, social capital is likely to have a positive impact on moral hazard.

To this end, it is beneficial to: integrate preventive health activities into micro-insurance schemes; maintain ongoing communication with clients; and provide them with a tangible benefit even if they have not fallen sick and utilized curative services.

The implementation of health education and prevention programmes not only shows a positive presence among the target group, but could also lower the financial burden of severe illness that causes insurance costs to rise.

[7] Churchill, C. 2008. Protecting the Poor: A Microinsurance Compendium. New Delhi, India: Academic Foundation.

Financial management

Solid management of financial resources is crucial for the success of micro-insurance schemes. Without a reliable source of finances and credible management, insurance schemes can go bankrupt if there are a high number of claims submitted. When the insurance company is unable to pay the policyholders the full amount, consumers lose faith in the programme and choose not to renew their subscriptions for the second year, thus contributing to the programme's failure.

Risk management and re-insurance

With subsidization and reserves, most micro-insurance providers are able to manage expected losses. However, even with subsidies, many are too small to carry the risk in the event of catastrophic loss. Re-insurers, which include governments, international donors and international insurance companies, can insure small insurance providers against financial collapse in the event of catastrophic events.

The smaller the risk pool of a health micro-insurance scheme, the higher the need for reinsurance because unexpected costs often cannot be covered by reserves and because claims variability is much greater in smaller risk pools. However, while formal insurers have access to reinsurers, informal health micro-insurers currently lack this access.

Whether or not an insurer should seek reinsurance depends on the magnitude of the accepted risks in relation to the insurer's financial capacity and the probability of loss. If the magnitude of potential loss is high, the insurer should seek reinsurance even if the probability of occurrence is low. Losses of low magnitude – which from the viewpoint of formal insurance companies are typical of health micro-insurance pools – should be borne by the insurance company itself. However, most small micro-insurers cannot accumulate sufficient reserves to prepare for a series of bad years. Re-insurance may offer a cheaper way to ensure sustainability than reserves.

What are the success factors and prerequisites for implementing the instrument?

On the whole, the complexity of setting up and operating micro-insurance varies from one field of micro-insurance to the other. However, successful insurance schemes in all fields typically exhibit the following qualities: [8]

Well-informed and appropriately designed product (with clear definition of target group) – Thorough research of the target group and demand

A key aspect to consider after defining the target group is the demand for micro-insurance. Results from demand research should inform the design of the benefits package and pricing structure. Successful micro-insurance schemes not only consider directly related conditions, but also study the issues that indirectly relate to consumers' ability and decision to purchase micro-insurance.

[8] ILO/STEP & GTZ. 2006. The Role of Micro-insurance as a Tool to Face Risks in the Context of Social Protection: http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---soc_sec/documents/instructionalmaterial/wcms_secsoc_93.pdf.

Product design

Product design is a real challenge since it is difficult to design a customized benefits package that both responds to the numerous coverage needs of the target population and is affordable. Problems with the design of a benefits package may result in low penetration rates, particularly when membership is voluntary.

Appropriate payment structures

It is difficult for households to make regular premium payments when they have other priorities that strain their budgets, such as food and housing, and income cycles that may be seasonal or irregular. In order to facilitate access to micro-insurance, it is important to design and implement an appropriate payment method. Examples include: installments designed to suit disrupted cash flow; interest earned on savings, which may be used for premium payments; and deduction of the premium from a member's loan, which does not cause the burden of additional payments but takes money when the member has funds at hand. Furthermore, by reducing vulnerability and insecurity, micro-insurance may contribute to increasing economic activity, which in turn facilitates the payment of premiums.[9]

Strong coordination and communication structures at all levels

Since micro-insurance is a relatively new concept, the target population lacks an understanding of this risk-management instrument. It is often confused with microfinance, causing difficulties in selling insurance policies and low renewal rates, particularly from insured persons that have not had a claim (due to the 'intangibility' of insurance). Often, policy documents (contracts, statutes, internal regulations) are too complicated for members, many of whom are illiterate. In the partner-agent model, the partner (a commercial insurer) may have a poor image among low-income communities and may be seen as quick to sell and slow to pay. It is therefore necessary to invest in Information – Education – Communication (IEC) and training of field staff.

Measures to build trust

Trust is the very foundation of any insurance market. From clients' point of view, there is a principal-agent problem. Due to asymmetric information, clients usually cannot tell how the product and pricing were designed (especially the commissions and profit margins included in the premium), or if an insurance provider will act against the interests of the insured or comply with agreements.[10] Micro-insurance presupposes the regular payment and pooling of premiums. But the target population cannot easily be persuaded to pool its premiums when it lacks full confidence in the promoters and other institutions involved in the project, or when it has experience with 'collective' projects (service cooperatives, savings and loan associations, etc.) that ended in failure.[11]

Awareness and education component

Setting up a micro-insurance scheme is worthwhile only if the target group believes that the insured risk is perceived as important. Successful insurance schemes comprise an education component in which potential and existing consumers are informed of the mechanisms, benefits and consumer rights of insurance schemes.

[9] *Ibid.*
[10] Churchill, C. 2008. Protecting the Poor: A Microinsurance Compendium. New Delhi, India: Academic Foundation.
[11] ILO/STEP & GTZ. 2006. The Role of Micro-insurance as a Tool to Face Risks in the Context of Social Protection: http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---soc_sec/documents/instructionalmaterial/wcms_secsoc_93.pdf.

Since insurance is based on the concept of mutualization (resource pooling and risk sharing), the understanding and acceptance of the insurance mechanism is enhanced when a tradition of mutual aid exists among the target population. This spirit of mutual aid may arise from a number of experiences such as being members of a savings and credit group, a cooperative, a group of workers employed by an enterprise, residents of the same neighborhood or members of a social movement.

Financial viability and reliable sources

Insurance schemes may require substantial financial resources if they are to have a significant impact; this can overburden already strained budgets. Apart from the funds needed to subsidize premiums and provide services, administrative costs for staffing requirements, information technology, awareness-raising, evaluation and monitoring can mount quickly. Involving public, private and civil society stakeholders in raising awareness, distributing and managing services, research and development can help to lower those costs.[12]

Staff with specialized skills and knowledge of the topic

Operating a micro-insurance scheme requires specialized skills and knowledge in fields such as accounting, management, marketing, underwriting and communication, and sufficient staff members. However, in some contexts it may be more cost-effective to outsource selected management functions to specialized agencies than keeping these functions in house. This presupposes that such agencies exist.

Technical management is highly complex and includes membership management, premium collection, claims management, assessment of customer satisfaction for better renewal rates, monitoring and evaluation, and prevention and mitigation of risks related to insurance (moral hazard, adverse selection, etc.).

Conducive political environment (regulatory requirements and commitment toward social protection) – Regulatory requirements

Insurance regulations are meant for protecting insured persons against misleading sales practices as well as maintaining the financial viability of the micro-insurance schemes. For organizations intending to establish an independent insurance business, high capital requirements can obstruct the provision of insurance products to low-income groups. Small premiums prevent the accumulation of the required capital for receiving a license as a formal insurer. However, in an increasing number of countries, regulations specifically adapted to micro-insurance organizations are being designed and implemented.

Commitment towards social protection

Micro-insurance cannot be in a position to reduce all major risks for low-income groups and poor populations. The effectiveness of micro-insurance schemes is strengthened when they are integrated into national social protection and risk management strategies (see part IV).

Adequate distribution channels

Since many potential customers are employed in the informal economy, adequate distribution channels must be in place to ensure access. Microfinance institutions, decentralized agent networks, cooperatives, women's associations, informal savings and credit groups, and others can be involved to

[12] Tewes-Gradl, C. et al. 2013. Inclusive Business Policies – How Governments Can Engage Companies in Achieving Developing Goals. BMZ.

ensure that customers are reached. The Kenyan agricultural micro-insurance programme *Kilimo Salama* uses agricultural supply dealers to distribute insurance policies.[13]

Strong monitoring and evaluation processes (to avoid corruption, abuse and neglect)

As with all insurance schemes, fraud and abuse are a challenge. Strong monitoring and transparent feedback systems for clients and providers can alleviate this problem. Technical innovations like smart cards can also increase transparency and accountability. These microchip cards can serve both as identification and record-keeping mechanisms, and are an effective means of administering insurance schemes to customers. For instance, they are being implemented in the Indian health insurance scheme Rashtriya Swasthya Bima Yojna (RSBY).[14]

Case studies

Case 1: Agroasemex (Mexico)

With an agricultural sector that accounts for 3.3 percent of GDP (2014) and employs 13 percent of the population (2013), climate hazards are closely monitored by the Mexican government.[15] Farmers are highly vulnerable droughts and cyclones. Credit in the rural agricultural sector is scarce, but one way to access it is through banks, which accept insurance as a guarantee for a loan. Therefore, access to insurance is especially crucial to these farmers. As a result, the state set up Agroasemex,[16] a public institution offering rural insurance and reinsurance products. Both a national insurance organization and development agency, it provides reinsurance for Mexican insurance institutions, mutual societies and insurance funds. As a public policy instrument, Agroasemex is sponsored by the Mexican Government and contributes to national risk management and the protection of the rural agricultural sector. In contrast to the monopolistic public institutions that previously covered agricultural insurance in Mexico, Agroasemex opened the agricultural insurance market up to the private sector.[17]

Agroasemex provides stop-loss insurance of up to 100 percent of the total sum insured to mutuals of smallholder farmers. As a result, farmers do not have to pay for insurance; Agroasemex collects the premiums from the federal and state governments. The reinsurance subsidy provided by Agroasemex has remained important since it was introduced. As of 2009, Agroasemex's Catastrophic Agricultural Insurance covered an estimated 3 million hectares in 18 states.[18]

Case 2: Rashtriya Swasthya Bima Yojana (RSBY) (India)[19]

Background

The Rashtriya Swasthya Bima Yojana (RSBY) national health insurance scheme is one of India's largest government programmes aimed at providing access to health care for poor people. A public-private

[13] *Ibid.*
[14] *Ibid.*
[15] World Bank data (accessed March 2015): http://data.worldbank.org/indicator.
[16] Vargas Hill, R., Gajate-Garrido, G., Phily, C. & Dalal, A. 2014. Using Subsidies for Inclusive Insurance: Lessons from Agriculture and Health. Microinsurance Paper No. 29. Geneva, Switzerland: International Labour Organization.
[17] Vargas Hill, R. & Torero M. 2009. 2020 Focus Briefs: Innovations in Insuring the Poor. Washington D C: International Food Policy Research Institute.
[18] http://www.grameen-credit-agricole.org/en/content/foundation-organises-study-tour-agricultural- insurance-mexico
[19] Tewes-Gradl, C. et al. 2013. Inclusive Business Policies – How Governments can Engage Companies in Achieving Developing Goals. BMZ.

partnership (PPP), it is strengthening the national insurance sector and improving India's health care ecosystem with a market-based approach.

Established by India's Prime Minister of India in 2008, it aims to provide access to health care for the 300 million citizens of India living below the poverty line. Most beneficiaries are workers in the informal sector and their families. By covering health costs up to INR 30,000 (around €355) per year for diseases that require hospitalizations, it provides low-income individuals and their households with protection from financial burdens related to unexpected health events. RSBY integrates innovative technology and awareness-raising methods, which contribute to the programme's success. In its first five years of operation, RSBY has an enrollment rate of around 55 percent and 5.65 million supported hospitalization cases.

Design

The Ministry of Labour and Employment was given primary responsibility for the design and implementation of this scheme until April 1, 2105, when it was shifted to the Ministry of Health. The initial design process involved multiple actors and was informed by empirical research. Government agencies including the Ministry of Health and Family Welfare provided expertise and ensured that the new programme would be aligned with other policies. Insurance companies were consulted on the market potential of RSBY while the World Bank and the German development agency GIZ offered technical advice. Experiences with previous health insurance schemes were analyzed for potential lessons, successful insurance models from other countries were reviewed and data on the health needs of India's poor communities were taken into account.

Once the design process was concluded, the Government embedded RSBY into India's 11th Five-Year Plan (2007–2012). A public budget of INR 70.78 billion (approximately €900 million) was allocated for the first five-year roll-out phase. In addition, the Government informally involved civil society organizations and community associations in the development of the scheme. Since these organizations communicate the needs of specific, often unorganized groups, they play a critical role in helping to spread awareness of the programme's benefits.

Over the past year however, RSBY has undergone significant changes as the 12th Five-Year Plan (2012–2017) shifted administrative responsibilities to the Ministry of Health and Family Welfare, increased the programme's expanse and budget, and outlined a plan for a tax-funded universal healthcare system to be completed over the next two or three plan periods.[20] The RSBY programme will be integrated into the framework of the universal healthcare system after its experiences and shortcomings are thoroughly studied and corrected (e.g. to reduce high transaction costs, fill in coverage gaps for primary health and out-patient services, and replace the fee-for-service model, which incentivizes the overuse of services). Technical and other capacities developed by the Ministry of Labour for RSBY should be leveraged as the core of universal healthcare operations under the Ministry of Health.[21]

The universal healthcare system will be decentralized, with a degree of autonomy given to the states and districts to run their own healthcare systems. To test the roll-out of the universal healthcare system, the national Government has called on the states to run pilot programmes in certain districts and explore different models for providing universal access to healthcare. The national Government will design a uniform Essential Healthcare Package covering in- and out-patient care for the states to use in the pilot stage. [22]

Under the new Plan, each district will develop a multi-year Health Action Plan, which is publicly available, to enable social audits and become the basis for resource allocation. Implementation of the Health Action Plans will include the local community and will be subject to community-based monitoring.[23]

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[20] Government of India Planning Commission. 2012.. 12th Five Year Plan (2012–2017) :http://planningcommission.gov.in/plans/planrel/12thplan/pdf/12fyp_vol3.pdf.
[21] *Ibid.*
[22] *Ibid.*
[23] *Ibid.*

The Government plans to finance the universal healthcare system through a general tax, and aims to increase public expenditures on healthcare from 1.2 percent to 2.5 percent by 2017, with at least 70 percent of expenditures used for primary healthcare.[24]

While the final design and outcome of the new universal healthcare plan are not yetclear, expansion of the RSBY programme is the first step. The programme will expand coverage beyond only below-poverty-line individuals and families to include beneficiaries that are not just based on low income, but on ‘deprivations’ as listed in the socio-economic census.[25] States will decide which services are covered in their jurisdictions, as well as the ceiling for covered procedures and treatments. According to staff of the Ministry of Health and Family Welfare, the restructured RSBY programme will likely be rolled out in 2017 –2018.[26]

Innovative technology

At the core of RSBY’s delivery mechanism is the use of an innovative biometric smart-card technology issued to all families that enroll in the scheme. The card carries the photograph and fingerprints of the family head and up to four other members, and is issued on the spot during the enrolment process. The card is pre-charged with INR 30,000, which can be used for inpatient care at any Indian hospital participating in the scheme. Transportation costs of up to INR 1,000 per year are also covered. Utilization of the card is completely cash-free and paperless. Beneficiaries pay INR 30 per year for card registration or renewal – the only financial contribution they are required to make in the scheme.

Furthermore, the smart cards are extremely effective methods for monitoring and evaluation. Thanks to the use of technology, the Government is able to obtain timely data on the use of the scheme, which helps to detect anomalies and make adaptations as needed.

Awareness-raising through insurers

Insurers also raise awareness of RSBY’s offers and enroll beneficiaries at the village level. Since they receive premium payments based on the number of enrolled families, they have an incentive to recruit as many people as possible. Insurers are also responsible for bringing hospitals into the programme and monitoring them once they participate, just as they are responsible for properly managing claims.

Impact

Thus far, evaluations have shown that RSBY has made remarkable gains, both in terms of providing access to health care and in improving India’s overall health care ecosystem. As of 2014, 35 million families were enrolled in RSBY, indicating that an estimated 177 million people have access to health care through the programme. The scheme has been implemented in 460 districts across 28 states and territories. A total of 15 insurance companies, 25,000 third-party administrators and more than 12,600 hospitals are involved. Around 5.7 million hospitalization cases have been subsidized since the inception of the scheme in 2008.

The impact of RSBY on poor people has been positive: out-of-pocket health care expenditures among the low-income population are decreasing; RSBY has generated greater demand for care from women, who previously neglected their health for financial reasons; and the scheme has increased beneficiaries’ power of choice. RSBY is increasingly empowering poor people to receive treatment from private hospitals, which they would otherwise not be able to afford.

Case 3: ENSO Business Interruption Index Insurance[27] (Peru)

[24] *Ibid.*

[25] Ghosh, A. 2016, *Government Sets Out to Widen Health Insurance Scheme to 50 crore People* The Indian Express: http://indianexpress.com/article/india/india-news-india/govt-sets-out-to-widen-health-insurance-scheme-to-50-crore-people/.

[26] *Ibid.*

[27] Baarsch, Huppert & Gradl. 2013. Changing Climate – Changing Behaviour: How Agricultural Microinsurance can help smallholders Reduce their Risk of Climate-related Disaster. Germany: Endeva.

Business Interruption Index Insurance (EBIII) is a risk transfer product established by La Positiva, a Peruvian insurance company, with assistance from GlobalAgRisk Inc., a global insurer specialized in natural disaster risk transfer in rural areas. EBIII provides companies and financial institutions insuring smallholder farmers with insurance against climate-related disasters associated with the El Niño Southern Oscillation (ENSO).

Since 2010, smallholders in Northern Peru can purchase insurance that pays out just as flooding starts and stakeholders begin incurring extra costs and consequential losses (Skees & Collier, 2010). An insurance policy that will pay out in early January must be purchased until April of the previous year. After April, ocean water temperature variations provide early forecasting information about the probability of an El Niño event. Payout is determined based on ENSO severity and data from November and December, and the threshold level indicated in the contract (Skees & Murphy, 2009). This insurance product provides indemnities to smallholders before a severe El Niño event emerges; an index of sea surface temperature in the Pacific Ocean triggers the payout (Skees, Hartell, & Murphy, 2007).

Given the high basic risk associated with selling index insurance to households, this product is designed for firms and institutions serving households that are highly exposed to ENSO (such as risk aggregators in the agricultural value chain). The aggregators can then transfer payments to smallholder policyholders. Paying before the emergence of the catastrophe allows smallholders to mitigate any losses and disruptions that are likely to occur by taking risk-reduction measures (Skees & Murphy, 2009).

Prior to introducing the ENSO insurance scheme, the Government had allowed farmers to forgo their debt; however, this policy was not sustainable.[28]

Case 4: Garantía Safra (Brazil)

Garantía Safra provides crop insurance to small low-income family farmers producing basic crops (i.e. cotton, rice, beans, cassava and maize) in northeast Brazil. The compensatory insurance covers production losses exceeding 50 percent of a harvest due to natural events such as droughts and floods. The programme is based on an institutional agreement among local (municipal), state and federal government. Local governments collect contributions from the family farmers, which amount to R$6 annually (approximately €2). State governments provide technical assistance, production supervision and loss certification. The federal Government, through its National Family Farming Strengthening Program (PRONAF), pays the compensation. An amount corresponding to approximately half of the monthly minimum wage in Brazil is paid out in the event of damage. The benefit is paid in cash in six installments over a period of six months.

Since 2004, Garantía Safra has assisted 500,000 producer families with payments amounting to R$200 million per year. The insurance covers 860 municipalities and assisted 661,000 family farmers from 2009 to 2010 (GTZ, 2010). Recently, Garantía Safra has also introduced risk-mitigation tools for smallholders who comply with agro-ecological zoning restrictions and technical recommendations regarding sustainable cropping.

Implementation

What results have been achieved with this instrument?

Micro-insurance is still a relatively new concept. Although there are many studies of micro-insurance schemes, Shawn Cole suggests that a comprehensive measure of impact on household well-being is

[28] Skees & Murphy. 2009. ENSO Business Interruption Index Insurance for Catastrophic Flooding in Piura, Peru. GlobalAgRisk.

still lacking. He also suggests that to the extent that insurance markets' long-term growth plans rest on government subsidies or other costly government interventions, an evidence base will inform governments about the value of allocating scarce resources.[29]

The following examples highlight some of the positive impacts that well-run insurance schemes may experience:

Economic growth

These three different case studies, conducted by three independent teams in very different geographies, produced a consistent set of messages: the provision of insurance encourages rural households to invest in riskier, more profitable crops. These results are important because they show that insurance can not only facilitate consumption smoothing, but also increase expected incomes.

In a large randomized control trial, Cai et al.[30] studied a sow insurance product provided by a government-owned insurance company in south-western China. The authors randomly assigned performance incentives to the village animal husbandry worker, who is responsible for signing farmers up for the sow insurance. They found that promoting greater adoption of sow insurance encourages farmers to raise sows, and this effect persists in the long term.

These studies provide a foundation for demonstrating the strong correlation between economic growth and insurance markets specifically, and financial markets more generally.[31]

Furthermore, since micro-insurance can contribute to increased economic activity and income, policyholders may be more likely to make regular payments for premiums.[32]

Diversification

Expanding business activities into new markets, new risks and new products is necessary for portfolio diversification, and this applies to investments in micro-insurance for traditional insurers based in developed countries. A micro-insurance strategy can provide a sound basis for future growth because it means diversifying into new regions with different exposures to natural disasters, into economies with different demographic structures, and into new products such as weather index insurance.

Reputational benefits

Engagement in micro-insurance shows a commitment to corporate social responsibility. It adds value to brand names in both traditional and new markets, and helps to justify initial investments in micro-insurance. There is little doubt that micro-insurance improves the lives of its clients. As the International Association of Insurance Supervisors (IAIS) has stated: "In absolute terms, many micro-insurance initiatives launched by governments, insurers and other organizations to protect the lives, health and assets of the low-income persons have made a tremendous impact".

A laboratory for innovation

The challenges of micro-insurance demand radically new solutions in products, procedures and technology. The small transaction sizes in micro-insurance products require highly cost-efficient processes, from sales and premium collection to claims handling. The resulting innovations can be implemented in traditional business areas with substantial gains in efficiency. Some multinational insurers, including Allianz and Zurich, have stated this as a reason for entry into micro-insurance.

[29] Cole, S. 2015. Overcoming Barriers to Micro-insurance Adoption: Evidence from the Field. The Geneva Papers, 1-21. The International Association for the Study of Insurance Economics.
[30] Cai, Chen, Fang & Zhou. 2015. The Effect of Microinsurance on Economic Activities: Evidence from a Randomized Field Experiment. *The Review of Economics and Statistics*, May 2015, 97(2): 287–300.
[31] Cole, S. 2015. Overcoming Barriers to Micro-insurance Adoption: Evidence from the Field. The Geneva Papers, 1-21. The International Association for the Study of Insurance Economics.
[32] ILO/STEP & GTZ. 2006. The Role of Micro-insurance as a Tool to Face Risks in the Context of Social Protection: http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---soc_sec/documents/instructionalmaterial/wcms_secsoc_93.pdf.

Market intelligence

Moving into new markets with a micro-insurance initiative provides practical insights into business environments, regulatory practice and unknown economic and political structures. Research and business in unfamiliar markets through micro-insurance programmes may prepare the ground and build experience with staff for traditional insurance activities in these markets.

First-mover advantages

Many of today's micro-insurance clients will be the middle-class clients of tomorrow – part of the' "Burgeoning Bourgeoisie" in developing countries described in the Economist's special report of February 2009. Satisfied clients will remain with their micro-insurance provider, spread the word and demand more products as they move into the middle class and appreciate the benefits of traditional insurance.[33]

What unintended side effects must be taken into account?

Developing and implementing an insurance scheme for a low-income population is a highly complex process, with many opportunities for issues to arise.

Dissolution of existing community support networks/reduction in solidarity

Studies suggest that the establishment of formal insurance might adversely affect the willingness to provide for the needy, thus resulting in a weakening of social norms and traditional support arrangements. Turning insurance into an individual purchasing decision with a specific price tag attached to it changes the status of 'being insured' to an individual's own responsibility. Individuals who do not purchase insurance might be perceived as deliberately relying on others; they might be 'punished' with reduced transfers in times of need. [34]

Increased vulnerability due to lack of flexibility in formalized insurance schemes

Prior to the introduction of formal micro-insurance policies, many communities already developed informal structures to aggregate risk, which were not restricted by terms and conditions. Under the new, formal structures, many consumers feel more vulnerable due to the rigidity of their policies, which are not as flexible as those developed within their close-knit community. [35]

Non-renewal of insurance policies

Often, households that experience negative payouts during the preceding year (either because they do not experience losses or do not make use of their insurance for lack of understanding) are inclined to opt out of their policy unless they have a good understanding of what insurance means. In other words, decisions not to renew can be avoided by adequately educating consumers about the mechanisms and long-term benefits of insurance. Moreover, trust in the insurance company has a significant positive effect. Platteau and Ontiveros[36] suggest that these findings provide a strong justification for mandatory universal health insurance.

Corruption, abuse and neglect

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[33] Lloyd's 360° Risk Insight. 2010. Insurance in Developing Countries: Exploring Opportunities in Microinsurance.
[34]http://www.diw.de/de/diw_01.c.493754.de/presse/diw_roundup/individual_insurance_and_mutual_support_arrangements_in_developing_countries.html
[35]*Ibid.*
[36] Platteau, J. P. & Ontiveros, D. U. 2014. Understanding and Information Failures in Insurance: Evidence from India. University of Namur, India and University of Oxford, UK.

As mentioned previously, insurance schemes are highly vulnerable to corruption and fraud. The large number of actors involved in the provision of micro-insurance makes oversight a challenge and increases opportunities for corruption, negligence and abuse.

Weak consumer protection

Recent reports on micro-insurance policies bring attention to the need for greater consumer protection. Weak consumer protection can have severe consequences both for clients and the development of micro-insurance markets as a whole. For the consumer, inadequate protection can lead to further impoverishment. Consumers face the risk that they will not receive payments promised if a loss occurs. An insurer may mislead its customers about the size of payouts or the conditions required to receive them, or it may not have enough financial resources to pay its claims. Prospective consumers who might already be distrustful of new and unfamiliar financial products are even less likely to buy insurance when insurers and insurance products have a bad reputation. Existing consumers might drop out if a product or provider does not fulfill their expectations, or if they hear of problems that other consumers face.[37]

What are the barriers and risks?

Providing micro-insurance to low-income consumers is a challenging and complicated process. In contrast to traditional insurance schemes in which the client base is wealthier and familiar with insurance mechanisms, micro-insurance must overcome some fundamental barriers such as reaching consumers in remote areas and very low levels of education, especially financial education. Overcoming these barriers alone is a very difficult and costly process for private companies; thus, PPPs are often the best solution.

Cole[38] describes some of the potential risks and barriers to establishing insurance schemes that target low-income consumers.

Transaction Costs

One of the biggest challenges to overcome is distribution. Low-income communities and individuals are often dispersed, living in rural areas. Simply reaching them – or having them come to an office to purchase insurance – often requires significant travel, which is costly and time-consuming. This problem is exacerbated by the fact that because insurance is a complicated product, it requires individuals with relatively high levels of human capital to sell and service policies.

The cost of selling and underwriting insurance policies in developing countries has made it difficult to realistically price insurance and increase adoption. Innovative solutions such as mobile payments can reduce these costs and increase efficiency by making claims processing and premium collection easier and faster.

Financial Literacy

A large portion of the target population, particularly the low-income population, lacks a solid understanding of financial products, and may therefore not recognize the value provided by financial services. Low financial literacy has been identified as a barrier preventing poor people from accessing government-supported health insurance programmes. Cole et al. report that households with greater measured financial literacy were more likely to own insurance policies.[39]

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[37] GIZ. 2015. Expert in Microinsurance, Module 1: Introduction to Insurance and Microinsurance. Frankfurt School of Finance & Management.

[38] Cole, S. 2015. Overcoming Barriers to Micro-insurance Adoption: Evidence from the Field. The Geneva Papers, 1-21. The International Association for the Study of Insurance Economics.

[39] Outreville, J. F. 2013. The relationship Between Insurance and Economic Development: 85 Empirical Papers for a Review of the Literature. *Risk Management and Insurance Review* 16(1): 71–122.

Governments are often the best partner for providing financial education since they can generally provide it at a low cost, integrate it into public education, offer unbiased information and usually enjoy greater levels of trust from the public than companies.

Behavioral biases

'Loss aversion' is a term used to describe the phenomenon whereby individuals are extremely averse to incurring losses relative to obtaining gains.[40] For example, someone purchasing a policy but not experiencing a loss might treat the insurance purchase decision as a 'loss'.

Difficulties evaluating low-probability events: Observed insurance purchase decisions are often inconsistent with 'rational' models. Individuals frequently overweigh low-probability, high-risk events when making decisions about purchasing such policies.

Difficulties understanding compound interest: Many individuals underestimate the power of compound growth. Individuals do not appreciate how quickly money accumulates; thus, borrowing becomes more attractive than saving.

Self-control: Buying insurance requires an upfront payment now for a benefit that will accrue in the future. People tend to overvalue present consumption, and therefore make decisions they later regret. Self-control problems are related to inaction biases, whereby individuals do not pay small costs (such as for a retirement account or other benefits) even though the upfront cost is trivial relative to the future benefit.

Trust

One of the key challenges to the developing insurance markets is lack of trust: many insurance policies (e.g. health, property) require some discretion on the part of the insurance company. If customers worry that the company will adjudicate unfairly, they may be unwilling to purchase.

Sales agents that are either introduced by trustworthy, local community members, or that are from the community itself have greater success in gaining the approval of consumers, and therefore selling insurance policies designed to meet the needs of low-income households. Cole[41] notes that households receiving a trust endorsement were 6-10 percentage points more likely to purchase insurance than otherwise identical households. Furthermore, programmes that are highly regulated or government-led, and include a reliable mechanism for consumers to express their complaints, also enjoy a higher degree of trust.

Liquidity constraints

Low-income entrepreneurs and households are typically burdened by cash-flow issues. Up-front costs for insurance premiums may be too high and deter potential customers from purchasing useful and necessary policies. Thus, alternative, flexible finance plans need to be developed and provided.

Effective policy solutions would likely include: ensuring a robust mobile phone-based payment infrastructure; enabling low-income households to earmark resources they receive, such as conditional cash transfers, to pay for insurance; introducing or encouraging more flexible insurance policies, such as those whose coverage scales with periodic premium contributions; or even allowing policies to be resold (this could work well in the case of weather or other index insurance because the insurance company is indifferent as to who holds the policy).

Adverse selection and moral hazard

When the decision to purchase insurance is voluntary and clients have private information about the risks they face, higher-risk clients are more likely to purchase insurance, resulting in a higher-cost risk

[40] Cole, S. 2015. Overcoming Barriers to Micro-insurance Adoption: Evidence from the Field. The Geneva Papers, 1-21. The International Association for the Study of Insurance Economics.
[41] *Ibid.*

pool. This, in turn, can drive up the premium insurance companies must charge and drive low-risk clients out of the market, leading to the phenomenon known as adverse selection.

Moral hazard occurs when individuals take less care because they are insured; for example, driving less carefully after purchasing auto insurance.

Lack of historical data

Historical information is necessary for designing efficient pricing arrangements for indexes and insurance premiums. Correctly identifying these trends removes problems of basic risk, in which certain products can be over- or underpriced.

Sustainability and continuity

Many of the micro-insurance schemes available on the market have poor sustainability and continuity. This is primarily because of poor management skills, which result in inadequate financial resources to employ staff. Inadequate information systems make it difficult to monitor operations, and many governments' regulatory frameworks and legislation do not work in conjunction with micro-insurance schemes. These dimensions can inhibit the expansion or replication of pilot projects.

Who are critical stakeholders for implementation, and what are their roles?

Below is a list of actors involved in the supply chain of micro-insurance:

Micro-insurance supply chain actors:[42]

Reinsurers are present to insure insurers against catastrophic events (e.g. natural disasters) that would deplete their financial resources. Examples of reinsurers include Allianz, Swiss Re, Interpolis Re and AXA Re.

Insurers carry insurance risks, pay claims, receive premiums, manage regulatory compliance and ensure financial stability to cover risks. Actors may include multi-national or national commercial insurers, mutual insurers, community-based organizations, NGOs, funeral parlors and informal groups.

Delivery channels: Actors in delivery channels are responsible for selling insurance policies on behalf of insurers, collecting payments for premiums and assisting with settling claims. This group may include actors such as microfinance institutions, community-based organizations, NGOs, specialty agents, employees, governments, retailers, cell phone providers, churches and post offices.

Policyholders purchase insurance policies to insure themselves against potential risks. For micro-insurance policies, low-income individuals are generally engaged as consumers, purchasing policies either for their households or small businesses. Households may purchase policies that protect them against risks such as health issues, family deaths, funeral costs and social risks. Low-income entrepreneurs and employees may be interested in insurance policies that cover risks such as climate-related impacts on harvests and livestock, unemployment and losses due to natural disasters. Policyholders may also include groups such as church members, trade union members and employees.

Covered lives: This group comprises those who have had premiums purchased to cover them. It includes, for example, children or spouses who are covered by a family health insurance policy.

Additional Actors

[42] http://edu.care.org/Documents/Experiences%20in%20Micro-Insurance_CARE%20and%20Global.pdf

Policymakers are involved in the insurance process both directly and indirectly. In cases where the insurance schemes are run or led by a government, policymakers are responsible for driving the entire process and ensuring that the programme reaches its intended consumers. Policymakers can also have an indirect yet powerful impact on private micro-insurance programmes by ensuring that the regulatory environment is favorable, offering financial education (either in schools or through various organizations), and strengthening research and data collection for best practices in micro-insurance policies. Policymakers can also play a role in ensuring the sustainability of insurance schemes by providing financial support or subsidies to supplement the low profit accrued by micro-insurance providers.

Donors and development organizations provide funding, technical expertise and implementation capacities.

Local community members may engage in insurance provision in one of two ways. First, they may be employed as selling agents by insurance providers to reach low-income communities in remote areas. Second, respected members of the community may be asked to introduce insurance agents to community members in order to gain their trust.

Role of PPPs in the provision of micro-insurance

Micro-insurance requires a variety of stakeholders from both the private and public sectors to join forces in diverse, and often innovative ways in order to deliver services to clients. There are many potential PPPs in the provision of insurance.[43]

Additional roles of government in the provision of micro-insurance

- Developing the micro-insurance market through demand and risk assessment, product design, insurance and risk management education, and identifying and strengthening delivery channels.
- Providing the infrastructure required for micro-insurance, such as healthcare services, natural disaster management and environmental protection.
- Financing and organizing research, educational programmes and other human resource development measures for enhancing the knowledge base and the insurance culture among relevant actors, including potential customers.
- Financing services (either in cash or in kind) such as health care provision, use of existing assets for the private sector, subsidizing benefits that are otherwise not affordable (e.g., discounted drugs for HIV/AIDS), and providing one-time subsidies that could help the private industry to approach the low-income market (e.g., co-financing start-up-costs to reduce the investment risk of insurance providers).
- Creating an appropriate legal environment and taking policy decisions in favor of micro-insurance and related areas, including regulation and supervision, normative and governance issues such as health and safety standards, setting micro-insurance delivery and product quality standards without interfering in product design, and consumer protection.
- Integrating micro-insurance into policies for protecting vulnerable sections of the population, such as social protection, financial inclusion and disaster management (however, not every programme qualifies as public-private partnership).

What could the implementation process look like?

Ten ‘emerging’ micro-insurance policy guidelines

[43] Micro-insurance Network. 2011. Discussion Paper 001: Public Private Partnerships in Microinsurance.

A recent publication by the Micro-insurance Network and the Centre for Financial Regulation and Inclusion (CENFRI) makes ten recommendations for good micro-insurance regulation in the form of 'emerging' guidelines for policymakers, regulators and supervisors.

Policy guidelines
1. Take active steps to develop a micro-insurance market.
2. Adopt a policy on micro-insurance as part of the broader goal of financial inclusion.

Prudential guidelines
3. Define a micro-insurance product category.
4. Tailor regulation to the risk character of the micro-insurance product category.
5. Allow micro-insurance underwriting by multiple entities.
6. Provide a path for formalization.

Market conduct guidelines
7. Create a flexible regime for the distribution of micro-insurance.
8. Facilitate the active selling of micro-insurance.

Supervision and enforcement
9. Monitor market developments and respond with appropriate regulatory adjustments.
10. Use market capacity to support supervision in low-risk areas.

Ideas for further research / knowledge gaps

- How can public subsidies and private financial contributions be combined to improve the financial sustainability of insurance schemes considering consumers' varying ability to pay?
- How can private companies be included in the delivery of insurance schemes and related services, thereby strengthening market forces, instead of replacing them?
- How can trust in – and awareness of – government insurance schemes be increased?
- How can donors design innovative financing initiatives to ensure sufficient funding for government insurance schemes over the long term?
- How does increased access to micro-insurance complement the effectiveness of micro-credit programmes?

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