Federal Ministry
for Economic Cooperation
and Development

STRATEGIES 179

Security at little cost Microinsurance in Financial Systems Development

BMZ Position Paper
Microinsurance – a field of activity
for German development policy

Contents

List of abbreviations

ADB	Asian Development Bank
BMZ	German Federal Ministry for Economic Cooperation and Development
CGAP	Consultative Group to Assist the Poor
DC	development cooperation
FC	financial cooperation
FMO	The Netherlands Development Finance Company
FSD	Financial Systems Development
GTZ	German Technical Cooperation
IADB	Inter-American Development Bank
IAIS	International Association of Insurance Supervisors
ICMIF	International Cooperative and Mutual Insurers Federation
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
ILO	International Labour Organization
INR	Rs 100 = € 1,50058 (exchange rate on 16 March 2009)
MFI	Microfinance institution
MFW4A	Making Finance Work for Africa Partnership
NGO	Non-governmental organisation
PPP	Public Private Partnership
TC	technical cooperation
UNDP/UNCDF	United Nations Development Programme, United Nations Capital Development Fund
US$	US$1 = € 0.75 (exchange rate on 24 March 2009)
WHO	World Health Organization

1. Introduction

The poor in developing and threshold countries [1] **are not adequately protected against the consequences of illness, death, accidents, natural disasters, and extreme weather**. And yet it is the poor who are more exposed to risk. Proper medical facilities and good water are often lacking, as are adequate safety regulations at their places of work. Not only are developing countries more severely affected by climate change and natural disasters but demographic change and migration weaken the traditional social and economic mechanisms that poor households tend to use to protect themselves. The financial provisions made by the poor are therefore limited in scope. They collect money from the family or from neighbours in order to tide over life-cycle events and emergencies. Should they still fall short, they take out loans, use their savings, or sell their assets.

According to the World Health Organization (WHO), the exorbitant amounts spent on health alone drive about 100 million people a year into poverty.[2] Many people forego essential expenditure on food and medical care. As opportunities to be educated and productive are limited, the poor sink deeper into the poverty trap. Development efforts in social security, education, health, rural development and the advancement of women are thwarted by the lack of protection.

Microinsurance is of particular relevance in economically difficult times: for instance, millions of people across the world are losing their jobs because of the **financial and economic crisis –** a development that is putting the social security systems under pressure. People who previously held secure jobs are being driven into the informal sector, and most of them are consequently no longer covered by the public social security systems. Informal security mechanisms such as remittances from family members living and working abroad are also weakened by the crisis. Microinsurance can help to close this gap.

Microinsurance is a poverty-related financial service and therefore an integral part of an evolving financial system. It allows low-income people to **secure themselves financially, socially and economically**. Microinsurance makes a **significant contribution to social security and hence to poverty reduction**. It is a vital tool with which the poor can generate income and wealth, besides gaining access to education and health facilities. The potential of microinsurance for the poor has barely been tapped. Four billion people in the world today have an annual income of less than US$ 3,000.[3] Of them, about three billion – the bulk of the population in developing and threshold countries – do not have adequate access to financial services.

Only 3% of the population in the 100 poorest countries are protected by insurance.[4] In fact in countries like Bangladesh, Laos, Angola or Ethiopia, less than 1% of the population has access to insurance schemes compared with industrial countries where virtually everyone is covered by health insurance and personal and non-life insurance are widespread.[5]

1 Developing and threshold countries will be referred to as developing countries in this paper.

2 World Health Organization (2005)

3 Hammond et al. (2007)

4 McCord et al. (2007)

5 Personal insurance includes life, disability and accident insurance. Home and automobile insurance are the most common non-life insurance products in industrial countries.

German development policy has acknowledged the relevance of microinsurance. This position paper provides a basic outline of microinsurance and describes the key challenges from the perspective of Financial Systems Development (FSD). It develops **a strategy for German development cooperation to pursue in the field and so effectively help towards ensuring that the poor have access to microinsurance in the long term.**

2. Microinsurance as a pro-poor financial service

The poor and their risk cover

Microinsurance is an **insurance product that has been adapted to meet the demands and conditions that are specific to the poor.** It is financed by insurance premiums.

Microinsurance is geared to **poor households that are able to pay premiums on an ongoing basis.** The target group includes **micro and small entrepreneurs in the informal sector. It is not appropriate for the poorest** sections of the population that must be protected through social security instruments such as transfer payments.

The life situation of the poor shapes their demand for microinsurance:

- The poor are usually self-employed in the informal sector or work in the agricultural sector and have an irregular income. They are covered only inadequately or not at all by the public social security systems.
- The poor are often either illiterate or have spent just a few years in school. They know next to nothing about finance and are not familiar with the concept of insurance.
- They often live in rural areas with weak infrastructure (e.g. for transport and financial services). Being far removed from insurers, their insurability is limited. A payment cannot simply be debited to an account because they usually do not have bank accounts.

Microinsurance is adapted to the circumstances of the poor: low premiums, simple product design, flexible premium payments and a prompt settlement of claims make it an attractive option (see Annexe 1 and Box 1).

In terms of risk cover, poor households can choose from a range of pro-poor financial services: loans, savings, cashless payment products and microinsurance. Of these, the loan is the most common option. Poor households tend to take loans because a loan is something familiar and is offered by the moneylender or by a microfinance institution (MFI) located in the area. It is granted immediately and requires no advance payment. While loans may help to tide over a financial emergency, the repayment of a loan is an additional strain on the family budget. In contrast, microinsurance guarantees ongoing protection while keeping premiums low.

Box 1. Life insurance to protect the family

Adela Chavez from Mexico City had never heard of insurance. As she needed to repair the roof of the house, she recently applied for a loan from the Banco Azteca. She was offered the option of paying US$ 2 more per week and obtaining life insurance worth over US$ 6,000 for her family. Her thoughts went immediately to her nephew who was killed in an accident in 2003. His death had spelt disaster for his family. Ms Chavez, who cleans offices, signed her first life insurance policy with Seguros Azteca.

Christian Science Monitor, 13 July 2007

Poor families must save in order to build reserves for difficult times. It takes a poor family a long time to save US$ 1000. An insurance policy however offers immediate cover against risk – starting with the first premium itself. Insurance is the financial service to choose when there is the likelihood of a low-probability risk having serious financial consequences.

Microinsurance is particularly important for women. In many ways they are harder hit by risks than men. There are usually more women than men in the informal sector and as a rule they are not covered by public social insurance. As head of the household, a woman must rely on herself. She is often less educated than a man, may not understand the policies and is thus more likely to prey to fraudulent offers. A woman's mobility is restricted; she earns less than a man, takes care of sick family members and therefore has only limited time available for a paid job. Women are exposed to pregnancy-induced health risks and bear the brunt of diseases such as HIV/AIDS. As they often have no control over property, they are vulnerable when divorced or widowed.

The experiences of pilot projects show that microinsurance does indeed improve a poor family's quality of life. It helps the poor survive emergencies without major setbacks. Unforeseen expenses do not strain household and business budgets, as insurance, with its financial provisions, comes to the rescue (Box 2).

As the offer of financial products becomes more vast and diverse, it also becomes increasingly complex for poor households. Instead of using the most effective product to protect themselves against risk, they fall back on the familiarity of a loan. **The poor will use microinsurance only when they understand the workings of insurance**. It is also important that they trust the insurer and intermediaries before agreeing to buy a policy.

Diversity of providers

Insurance for the poor has been offered for decades by death benefit associations or community- and member-based insurers. The term microinsurance was coined at the end of the 1990s in the debate on microfinance. At the time, MFIs started to take out obligatory life insurance policies for their borrowers, primarily to secure their credit portfolios, but also to retain their clients with new offers. To this end some MFIs entered into partnership agreements with insurers. Today, numerous insurers themselves see an opportunity in this market, are expanding their product range, and developing new sales and distribution models.

The providers include insurers and intermediaries (Box 3).

Box 2. Insurance gives a family better life chances

Cheekati Ahalya was a member of a self-help group set up by MARI, a non-governmental organisation (NGO) in India. She had a health and accident policy from the Healing Fields Foundation (HFF). She had to pay an annual premium of Rs 320 (€ 4.80). When she died in an accident, the insurer acted promptly. Her husband received Rs 25,000 Rs (€ 375) and the two daughters Rs 5,000 (€ 75) each to be set aside for their marriage and the same amount for their education; the son was given Rs 15,000 (€ 225) towards education and training. The family together received Rs 60,000 (€ 900).

What Ails the Poor? www.Small Change.in, November 2007

Box 3. Insurers and intermediaries

(Micro) insurance providers are divided into insurers and intermediaries. The insurers bear the risk cover while the latter only mediate between customer and insurer. **Insurers** fall into the following **categories:**

(1) Commercial (capital-based) insurance companies like national or international corporations;

(2) State-owned insurers;

(3) Community- and member-based insurers like cooperatives, death benefit funds and mutual companies;

(4) Non-governmental organisations and MFIs.

Groups (3) and (4) are often comprised of **insurers** who are not subject to insurance law. However, as soon as such an insurer reaches out to a critical mass of clients, it is important for him to be integrated into the formal insurance sector. This calls for an adequate regulatory framework and wide-ranging organisational adjustments.

The liaison function of the **intermediaries** includes information, sales and customer care, as well as assistance with data processing. In microinsurance, insurers cooperate with intermediaries such as MFIs, NGOs, grocery stores, cooperatives, trade unions or individuals like teachers or religious leaders, as this gives them the opportunity to reach out to areas and population groups that are difficult to access, and to work with distribution partners who are not only close to poor customers but also enjoy their trust.

The political and economic context

The political and economic environment is crucial to the fundamental question of whether microinsurance is at all adequate as a tool to protect the poor, i.e. whether these products are appropriate for the poor and whether such an offer is feasible for insurers.

The conditions and the market environment in which microinsurance should be given priority, as it is superior to alternative strategies, must be clarified in concert with other development sectors such as social security, health, rural development, climate protection and financial systems development. Against this background, one of the questions that crops up is whether the people in fragile states, in countries with a high conflict potential or with poor governance, are basically willing and able to advance the premium and whether the insurers have the capacity to exploit the market potential.

The latest developments

In several countries the volume and diversity of microinsurance products is growing steadily but surely. However, overwhelming majority of the people in developing countries continue to be without any risk cover in the sense of financial protection.

There have been a number of developments that have supported the provision of microinsurance:

- An **increasing number of pro-poor financial service providers** such as cooperatives, mutual insurance societies or MFIs can now be considered providers or sales partners.

- The **insurance industry** is testing special offers for the poor. It sees this strategy as part of its corporate responsibility and is also interested in the opening up of new markets.

- **Governments** are increasingly pursuing an agenda of creating an inclusive financial system that facilitates access to financial services, also for the poor. Furthermore, the goal of creating an inclusive social security system for the entire population is also gaining importance as a political priority. Microinsurance is an integral part of both fields of policy.

- **New technologies** such as electronic modes of payment (smart card, mobile banking) and **innovative business models** like supermarkets as sales outlets for financial services can reach out to poor customers without bank accounts.

- **Better infrastructure and increasing levels of education** make it easier to reach out to customers in remote areas and to new target groups.

Given the tremendous significance of microinsurance in development policy, international sponsors such as donors, development banks or foundations are reinforcing their commitment in the sector. **In comparison with the volume of assistance in the microfinance sector, microinsurance has been only marginally serviced to date.** The international donor community plays an important role in promoting product development and new distribution channels, in providing risk capital, promoting networks and providing public goods like data and financial literacy, besides creating an enabling environment including policy frameworks and laws. **All these efforts are fraught with impediments that hamper the independent development of markets for microinsurance**.

Cooperation in the Microinsurance Network is a key element in fine-tuning the concept of microinsurance and in harmonising promotional approaches pursued by the different sponsors (Box 4).

Positive developments and the growing volume of promotion funds notwithstanding, the spread of microinsurance is still relatively limited in comparison to micro credit. Efforts to mobilise demand and improve supply are faced with diverse challenges.

Box 4. Cooperation with other donors in the Microinsurance Network

MIN plays a central role for sponsors. Numerous international organisations as well as development and financial sector experts operate in this network. The network was founded in November 2008 and emerged out of the CGAP Working Group on Microinsurance that has been in existence since 2002. It makes a pivotal contribution towards refining the concept of microinsurance and towards harmonising the promotional approaches. Thematic working groups include *Capacity Building, Impact, Health, Delivery Channels; and Regulation, Supervision and Policy Issues*. The network publishes pioneering documents, such as the recent publication *Emerging Practices for Donors* and, in collaboration with the Munich Re Foundation, organises an annual tone-setting conference on microinsurance.

3. The challenges of microinsurance

In developing countries the insurance sector counts among the **poorly developed sub-sectors of the financial system,** a fact that hampers the development of microinsurance. There are almost always bottlenecks in terms of the framework conditions, service providers and suppliers. The objective is to create an inclusive financial system that enables the poor to gain access to effective (value-for-money) microinsurance systems.

Sustainable microinsurance is characterised by the following features:

- **Financial viability**, i.e. insurers and intermediaries operate efficiently and in the medium term without external support, thereby guaranteeing a sustainable offer.
- **Demand orientation**, i.e. microinsurance is developed and marketed according to demand and verifiably improves the life situation of the persons insured.
- **Breadth of outreach**, i.e. large sections of the population have access to microinsurance.

Two cross-cutting themes are particularly relevant in microinsurance: **adjusting to the special needs of women** and **effective client protection.** Awareness building, products and marketing must take account of the special challenges facing women. Potential obstacles such as illiteracy and limited mobility should be given particular attention while striving to reach out to women.

Effective customer protection is characterised by a transparent product offer in terms of prices, services and rights, the prompt settlement of claims, accessible redressal options in case of conflict, trustworthy and healthy providers, and guarantee programmes for the insured in the eventuality of the insurer suffering a financial collapse.

Customer protection measures are important as poor households rarely have any insurance experience. Their financial literacy, which is poor to begin with, is particularly weak when it comes to insurance. A lack of transparency and competition in the insurance market prevents them from drawing comparisons. Dubious actors offer overpriced products, delay the processing of claims, or misappropriate the premiums. In the case of life insurance policies that must necessarily be sold with microloans, the insured are often unaware that there is insurance cover.[6] Misinformation and fraud dilute interest in insurance and destroy trust. That the insurance client when paying his premium in effect advances funds for a promise, makes it difficult to sell insurance policies. Effective customer protection therefore calls for innovative solutions on the part of all actors.

For microinsurance to be able to unfold its full impact in poverty reduction, demands are made of the **actors at the three levels of the financial system:** (1) Legislators, regulators and supervisory organs that create enabling environments; (2) Service providers such as training institutes, reinsurers, associations and networks that support microinsurance providers; and (3) Providers (insurers and intermediaries) who develop and market effective microinsurance products.

6 Tran et al. (2004)

(1) Enabling political and regulatory framework (macro level)

The creation of a financial sector characterised by competition, market efficiency and broad outreach is on the development agenda of numerous governments. Enabling policies and regulations along with effective supervisory organs facilitate growing private-sector involvement, while enhancing the distribution and quality of microinsurance.

Some governments such as those of Brazil, India, Peru, Mexico and the Philippines have developed special policy approaches that have helped to improve access (Box 5). Other countries are also working on innovative framework conditions. However, the overwhelming majority of governments has yet to take steps towards integrating the poor into the formal insurance sector.

The challenges in creating a favourable political and regulatory environment are the following:

- **Politicians, ministry and other officials are not adequately informed about microinsurance**. They include insurance supervisory bodies, the finance ministry, central bank, bank supervisory bodies, cooperative authorities and the ministry of social affairs. Hence policy issues such as the integration of death benefit funds into the mainstream financial sector or the taxing of microinsurance are not dealt with. Funds are often not available to finance the costs of adjusting policies, regulations and supervisory systems. Without state supervision to ensure good practice and create awareness among customers, there is a risk of customer protection being neglected as microinsurance becomes more widespread.

- **Strategies and laws in the financial sector are not coordinated with other policy areas such as social policy, health policy and cooperative policy.** There should be coherent interaction between these policy areas and the financial sector. For example, the regulation and monitoring of cooperatives, health insurers and mutual societies that fall outside the insurance supervisory entities may pose a problem if the responsible authorities apply standards and practices that do not ensure the intrinsic value of the products and sustainability of the suppliers. Conversely, over-regulation, i.e. exces-

Box 5. Framework conditions improve access and safeguard customer protection

The insurance supervisory authority in the **Philippines** introduced a special regulation for member-based microinsurers (microinsurance mutuals). These insurers offer simple products for poor households. Most of them have been formed by MFIs and as mutuals, are exempt from income tax. In comparison to commercial insurance companies, this model requires a much smaller capital base. After just two years they cover more than two million poor policyholders.

When insurers are not subject to state supervision, it is easy for mismanagement or fraud to creep in. Not having a licence means that insurers cannot reinsure themselves against large-scale disasters and therefore cannot share the risk with other insurers. The special licence for microinsurers helps small insurers to formalise their operations and so be subject to state supervision, which in turn ensures quality and sustainability.

Llanto et al (2008)

sively high standards, can mean the end of community- or member-based insurers.

- **Regulations and supervisory mechanisms** are tailored to the requirements of commercial insurers who offer products to higher-level clients. They often do not allow informal insurers to become part of the formal sector and do not encourage commercial insurers to integrate the poor. They neither allow for alternative distribution models, e.g. via MFIs, post offices or electricity supply companies, nor facilitate the establishment of new microinsurers. The insurance supervisory body is often not adequately equipped for these new tasks and there are as yet no global standards or guidelines that could serve as a reference point.

Subsidising the premiums of policyholders runs the risk of distorting the market and creating a bandwagon effect. Subsidies can however be resorted to if they can significantly expand the scope of microinsurance services, and, in particular, reach out to marginalised population groups such as HIV-infected persons or the very poor. These subsidies must be designed such that the unintended side effects mentioned above are kept to a minimum. It would be expedient to have subsidies particularly for capacity-building measures, training and upgrading for example, that target intermediaries, service providers or public authorities, as well as subsidies to finance public goods such as the provision of data for insurance societies, or even for awareness campaigns about the purpose and importance of insurance for poor households

(2) Specialised service providers (meso level)

Service providers include associations, networks, actuaries (insurance mathematicians), market researchers, auditors, information technology providers, consultancy firms, assessors, educational and training institutes, research institutions, data administrators and reinsurers. Their services are required to support the insurers and intermediaries.

Specialised service providers have emerged in some countries, for example the organisation RIMANSI in the Philippines that primarily supports microinsurers, besides facilitating regulatory adjustments. Service providers from the insurance and microfinance sectors are increasingly putting microinsurance on their agenda but are not yet prepared for the growing demand. The challenge therefore lies in ensuring that **new specialised service providers can emerge** while **existing providers in the insurance and microfinance sectors are motivated to include microinsurance into their service package**.

(3) Providers (micro level)

Challenges faced by insurers and intermediaries vary according to type. Community-based and cooperative insurers are close to the target groups and reach out to the poor, even in remote areas. However, their range of services is often limited, as is their catchment area, and their organisation and ownership structure are weak in some aspects. Commercial insurers and traditional intermediaries are rarely geared to serve lower-level clients. Business start-ups are hampered by the lack of capital and experience.

All providers are faced with the challenges of product development, new administrative processes, marketing strategies and further training. New products and marketing techniques are tested in several places, but the need for learning and innovation remains considerable in this regard. Obligatory life insurance, which is tied to a loan and which currently accounts for the bulk of microinsurance, is a common product. It should be improved in terms of its transparency and voluntary nature. The trend however is towards life insurance that offers more than just the repayment of an outstanding loan.

Box 6. Index-based insurance policies provide security for small farmers

The revenue earned by small farmers is exposed to several risks, for example drought or floods can destroy their entire crop. Even if the annual crop can be safely harvested, extreme fluctuations in the market price may mean that the hard-earned harvest can only be sold at a loss. There is hardly any cover for these risks as it works out to be extremely expensive for the insurer. In order to avoid fraud, each claim is examined on an individual basis. But the high costs involved bear no relation to the low premiums that the small farmers can pay. For this reason, agricultural insurance is usually highly subsidised which is why the sustainability of this scheme is often questioned.

Index-based insurance offers an innovative alternative. The payment is not coupled with the examination of a single case but with the occurrence of a particular event. For example all the persons insured in an area are compensated if the area experiences too little or too much rainfall. In this case the index is the rainfall measured according to a defined scale. One of the challenges facing index-based insurance is the necessity of investing in infrastructure, i.e. in a network of weather stations covering the entire region. Other possible indices are for instance the market price, to protect farmers against price volatility.

The number of additional products on offer is growing – life insurance, for example, that is not tied to a loan or policies that include accident and disability protection. Non-life insurance and combined products that pool together several risks such as life, accident, damage to buildings as well as pension-related products are also on the rise.[7] Index-based insurance cover for diverse weather-related risks for areas vulnerable to flooding or for agriculture falls under this category (Box 6).

Health insurance is important for the people and there is tremendous interest on the part of the poor. However, most people find the premiums to be too high or the services too limited. Subsidised programmes are often fraught with weaknesses and, in the long term, are not financially viable for the state. Health insurance is particularly beneficial when good quality health services are available. Ensuring the delivery of these services is an enormous challenge in developing countries. The service package must be designed such that the key risks are covered and the poor are able to afford the premiums. The threat to health systems posed by epidemics must also be taken into account. Given these challenges, in some partner countries microinsurance in the health sector may not be a suitable approach.

Simple microinsurance products such as life insurance have already proved to be suitable for poor households. Several innovations with more complex products like non-life insurance, pension schemes or health insurance are in the process of being tested. Depending on the degree of complexity, their suppliers are challenged in various ways. Young microinsureres usually start business with life or health insurance, while more experienced insurers offer non-life insurance, endowment policies or pension schemes.

A wide-ranging and sustainable offer of effective microinsurance made available through a free-market approach is still a long way off. As described above, there are challenges at every level in the financial system with some extending to other policy fields (such as social security and social policy). The situation requires innovative political, technical and organisational solutions, as well as committed interaction between all actors in the partner countries not only at global level but also at the level of the international development agencies.

7 McCord et al (2007)

4. Strategy for German development policy

In many ways, new approaches are necessary if effective microinsurance is to be widely distributed. In several countries the private sector, partner governments and international development

Box 7. Project examples

1. Microinsurance Innovations Project Philippines: Poor households have only very limited access to insurance products and public social security programmes. This reduces their opportunities for development, and heightens the danger of poverty and social conflict. The objective of the project is to ensure that the poor have better opportunities to protect themselves against risk. The target group comprises primarily the two million people who are currently reached out to by Microinsurance Mutuals, and MFI clients. The project is active in the financial and social security sectors. The framework conditions and policy instruments in the fields of insurance policies and health insurance are being improved. Service providers are empowered to be efficient, conflict-sensitive and sustainability-focused when performing their tasks in education and training, ensuring transparency, data collection, research, reinsurance and product development. Measures related to product development and demand stimulation are conducted at the level of the providers and customers. The project was launched in early 2009 and works together with several national partners like the finance ministry, insurance supervisory body, the service provider RIMANSI, the public health insurance company PhilHealth, insurers like Microinsurance Mutuals and with MFIs.

2. LeapFrog Microinsurance Fund: Leapfrog is the first fund in the world specialised in setting up and developing microinsurance providers. The aim of the fund is to provide 25 million poor people in some African and Asian countries with sustainable and efficient insurance services that meet the needs of the target group and so help in insuring basic risks in life such as the high medical costs, the death of the main breadwinner and the loss of the one's home or harvest. The fund's business model envisages activating risk capital and specialised know-how in the target countries for joint ventures with established commercial private insurers and MFIs or other appropriate marketing structures and investing in existing young and healthy microinsurers. In addition to German development cooperation, other European and international actors are also involved in the formation of the fund, e.g. EIB, FMO and Acción. For further information visit www.leapfroginvest.com

3. Social security for the poor in India, Indonesia and Laos: The starting point for the public-private partnership between UNDP, Allianz and GTZ was a joint study of the risks that the poor are exposed to, and the strategies required to deal with these risks. Based on the results of the study, three product lines were developed for the poor in India and Indonesia. A credit life insurance has been developed in Indonesia, which is distributed through MFIs and local banks within the framework of a credit programme. In case of death, this micro life insurance covers the outstanding instalments in addition to paying a compensation so that the survivors are not facing poverty. The product has been sold 75,000 times to date. In India, two products for survivors, which combine a life insurance policy with a savings plan, are being distributed together with an Indian NGO, NFIs and local banks; over one million people have been covered so far. A health insurance product that includes coverage for hospitalisation expenses has been successfully developed and has been sold more than 100,000 times to date. Allianz believes that the microinsurance business in India is profitable and can expand.

agencies are currently working on innovative approaches covering issues such as customer protection, product development, distribution, administration, regulation and supervision, as well as integration into public programmes and into the policy framework. This is where German development cooperation can make a significant contribution (Box 7).

Building on their financing and consultancy approaches used in microinsurance, German development cooperation actors can harness synergy effects. The sectors of microfinance and microinsurance operate in the partner countries with the same institutions (finance ministry, central bank, microfinance associations) or with similar ones (insurance supervisor, insurance associations, MFIs, cooperatives).

Along the lines of interweaving promotion strategies across the disciplines, German development cooperation actors in different sectors can jointly design their development policy approaches for more efficient microinsurance. This is particularly true of social security but also applies to food security, the promotion of health, agriculture and small enterprises, rural development, disaster prevention and measures to mitigate the effects of climate change. Microinsurance is a vital tool in the systemic promotional approach, particularly in the social security sector, e.g. the promotion of community-based health insurers. The tools in these sectors can be combined with financial systems development approaches.

Microinsurance is effective in the interaction with the other pro-poor financial services and financial subsectors. The premium for an insurance policy can be saved in and debited to a savings account, a functioning payment system facilitates the flow of money between insurer and client, and insurance helps to reduce credit risks in agricultural financing. Microinsurance should therefore be an integral part of financial systems development in the partner countries.

International networking between German development cooperation and other donors and international experts makes for more efficient interventions. For instance, cooperation with other donors such as bilateral and multilateral institutions, foundations, the *Microinsurance Network* and *IAIS* can be further improved through exchange and collaborative projects. German development cooperation, which makes a significant contribution to the international dialogue and to the development of tools, can expand its involvement in this sector too (box 8).

Levels of intervention

Building on the sector strategy of financial systems development and on the earlier experiences in the field of promoting microinsurance, the actors in German development cooperation work at the different levels of the financial system, which ensures that microinsurance can develop to its full potential. A holistic approach to the support at all **three intervention levels**

Box.8 The Access to Insurance Initiative

The Access to Insurance Initiative, created jointly by BMZ, the International Association of Insurance Supervisors, the World Bank, Finmark Trust and ILO improves the regulatory framework in a number of partner countries. It works in partnership with various donors and in close cooperation with insurance supervisory authorities. The core fields covered by the Initiative (in terms of regional and national activities) include knowledge generation, dialogue, development of standards, coaching and capacity development. For further information, please visit: www.access-to-insurance.org

- framework conditions (sector strategies, regulation and supervision; macro level)
- service providers and public goods (meso level), and
- insurers and intermediaries (micro level)

can initiate structural improvements in the overall financial system, enabling microinsurance to be offered on a sustainable basis with a broad outreach.

The objective of German development cooperation and its measures is to facilitate the largest possible number of poor people to have permanent access to beneficial microinsurance products. This is an important contribution towards providing social and economic protection for the poor. The following overview (Figure) illustrates the **interventions** proposed for German development cooperation at the three levels of the financial system.

Promoting **consumer protection and adapting products and services to meet the needs of women** are cross-cutting tasks involving all actors. In its capacity as moderator, German development cooperation can bring them together and can promote a code of conduct or a consumer protection campaign that is then put into practice by public and private actors. Assistance in developing information material for women and products for women is also conceivable.

Development cooperation tools

Promotion activities should be selected on the basis of the country context. Examples of activities are listed in Figure 1 followed by a detailed description in Annexe 2. Selection criteria include partner demand and aspects of donor harmonisation in the sense of complementary involvement:

The following development cooperation tools are of relevance in this context:

- Capacity development through personnel cooperation (on the part of technical cooperation) for ministries and public institutions like supervisory authorities, service providers, insurers and intermediaries;
- Financial tools (on the part of financial cooperation) like loans and financial contributions, participation in equity capital with accompanying consultancy inputs as well as training;
- Public-private partnerships in an effort to integrate the private sector and to promote knowledge transfer.

In interaction with global actors, German development cooperation contributes to cross-sectoral learning processes, good practices, standards and measurable results that are reflected in a sustainably improved offer of microinsurance.

Principles for implementation

The following principles for implementation summarise the strategy described while ensuring that the support strategies are efficient and effective in design:

(1) **Microinsurance is an integral part of the financial sector.** The quality of providers and products is thereby assured and synergies with other fields in financial sector development are harnessed.

(2) **Aspects of effective microinsurance that vouch for its quality,** such as financial viability, demand-orientation and breadth of impact guide all action and are measured on the basis of the corresponding indicators.

Figure: Examples of promotional approaches at the different levels of the financial system

Objective:
Permanent access to sustainable and beneficial microinsurance for broad segments of the population

(1) Macro level: supervisory authorities and ministries

Training supervisors and representatives from the political level

Adjusting the regulatory framework and supervision

Dialogue processes between private and public actors

Sector policies

(2) Meso level: Service providers and public goods

Training existing service providers

Setting up new service providers

Public goods such as data, weather stations and consumer protection

(3) Micro level: insurers, intermediaries, customers

Promoting products and marketing

Investing in insurers (setting up or reforming)

Linking actors (private, public)

Customer information

Cross-cutting themes: customer protection, gender aspects

Global activities:

- Contribution to global learning processes in order to disseminate good approaches more rapidly and effectively
- Contribution to the development of international standards and guidelines and good practices and tools to measure the results of policy reforms.

Inter-disciplinary networking with other development policy sectors

(3) The support rests on a **holistic multi-level approach in the financial system**. This does not mean that German development cooperation must support every country simultaneously at all three levels. It is more a question of selecting and combining support activities from the three levels of intervention depending on the context, part-

ner demand and the commitment of other donors.

(4) The support is based on a **free-market approach** that encourages competition and cost recovery. This also applies to non-profit oriented insurers like mutuals and public insurers.

(5) **Sector policies are coherently designed** that microinsurance policies are uniformly geared towards sustainability and towards better access within the framework of financial sector policy, social policy and social security, agricultural policy, etc.

(6) Interventions start at the lowest possible level (**principle of subsidiarity**). This means that the state is only active in areas where other actors are unable to come up with a solution.

(7) Market distortions and the bandwagon effect as side effects of publicly subsidised premiums should, as a rule, be avoided or at least kept to a minimum.

(8) Public and private actors advance **customer protection, including financial literacy**. Customer protection helps to ensure healthy market development in which poor households are motivated in terms of microinsurance and are confident that value-for-money products will be offered on a sustainable basis.

(9) The effectiveness of microinsurance is enhanced when **products are adapted to the special needs of women**.

(10) **International networking enhances efficiency and quality.** It is used in line with donor harmonisation and to develop and disseminate best practice, standards and guidelines.

Annex 1

What makes microinsurance customer-friendly?
Low insurance premiums make an insurance policy attractive, as low-income groups find them affordable, and they do offer effective protection.
Group insurance reduces transactions and lowers costs for customers and insurers.
Information about insurance in the local language and with the help of simple methods increases the customers' understanding and confidence.
Comprehensible policies, simple product design and no terms and conditions for access, such as screening requirements, help to reduce administrative costs and to facilitate sales.
Combined products that cover several risks reduce transaction costs for insurers and for the insured.
Flexible premium payments are adjusted to fit in with a family's *cash flow* and allow the family to pay the premium when money is available.
Payment reminders and other incentives in product design and service boost the number of people who retain their policies.
A built-in **savings quota** or a policy that can be partly refunded if no claim is made is an incentive for policyholders to stay in the programme.
Insurance agents who are **close to the customers** and enjoy their trust are indispensable.
An **unbureaucratic and quick (within a few days) procedure to settle claims** creates confidence in products and providers.

Annex 2

Overview of fields of intervention, partners and promotion activities

Fields of intervention/partners	**Promotion activities undertaken by development cooperation actors in financial systems development**
1 - Framework conditions such as financial sector strategies, tax laws, regulation and supervision (macro level)	
Insurance supervision and other supervisory authorities Finance and other ministries	• Support to sector reform and contribution to the harmonisation of sector policies (e.g. financial sector and social policy), integration of microinsurance into financial sector policy and with other relevant policy fields • Harmonisation of supervisory sectors (e.g. cooperatives and the financial sector) • Training and upgrading of insurance supervisory authorities and politicians • Adaptation of laws, norms, standards and supervision ▪ Integration of non-regulated insurers ▪ Motivation of regulated insurers ▪ Public consumer protection measures.
2 - Setting up new service providers and training existing ones (meso level)	
Associations and networks Training institutes Colleges and universities, research centres Reinsurers Specialist service providers such as actuaries, auditors, market researchers, assessors, and consultancy firms	• Promotion of associations and networks (e.g. start-ups, self-regulation, consumer protection, studies, data collection, dissemination of information) • Upgrading of training facilities • Promotion of linkages between microinsurers and reinsurers; setting up of specialist reinsurers where required • Training of specialist service providers • Financing of investments in private-sector institutions, e.g. participation in reinsurance or in training institutes • „Insurance infrastructure“, e.g. weather stations.

3 - Development of new products and marketing methods, setting up insurers and reforming existing insurers, linkages and customer information and protection, equity participation (micro level)	
Commercial insurers Community- and member-based insurers Insurance societies State-owned insurers NGOs and MFIs Brokers, agents and other intermediaries	• Financing investments in private-sector insurers (equity participation) for newly set-up microinsurers, or in existing insurers • Technical support and/or investment-supporting measures for formalising non-regulated insurers, consolidating/reforming existing insurers, expanding the product portfolio, exploring new distribution channels • Technical assistance for community- and member-based and other insurers • Promotion of linkages between reinsurers and insurers, and between intermediaries (like MFIs) and insurers • Measures to enhance consumer protection • Linking up microinsurers or MFIs with public social security systems and social security tools (e.g. welfare payments)
4 - Global actors and strategic activities	
Microinsurance Network IAIS World Bank, ILO, UNDP/UNCDF, IFAD, IADB, ADB, etc. Supra-regional private and public initiatives (e.g. Geneva Association, Financial Access Initiative, Making Finance work for Africa) ICMIF Funds and other investors Research institutes	• Supra-regional exchange of expertise (publications, conferences, workshops, dialogue seminars) • Studies, research, statistics, data collection • Elaboration of international standards and guidelines, and best practices • Participation in supra-regional specialised investment funds or holdings • Consumer protection as a cross-cutting theme • Coherence with other fields of policy and cooperation with other development policy sectors

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