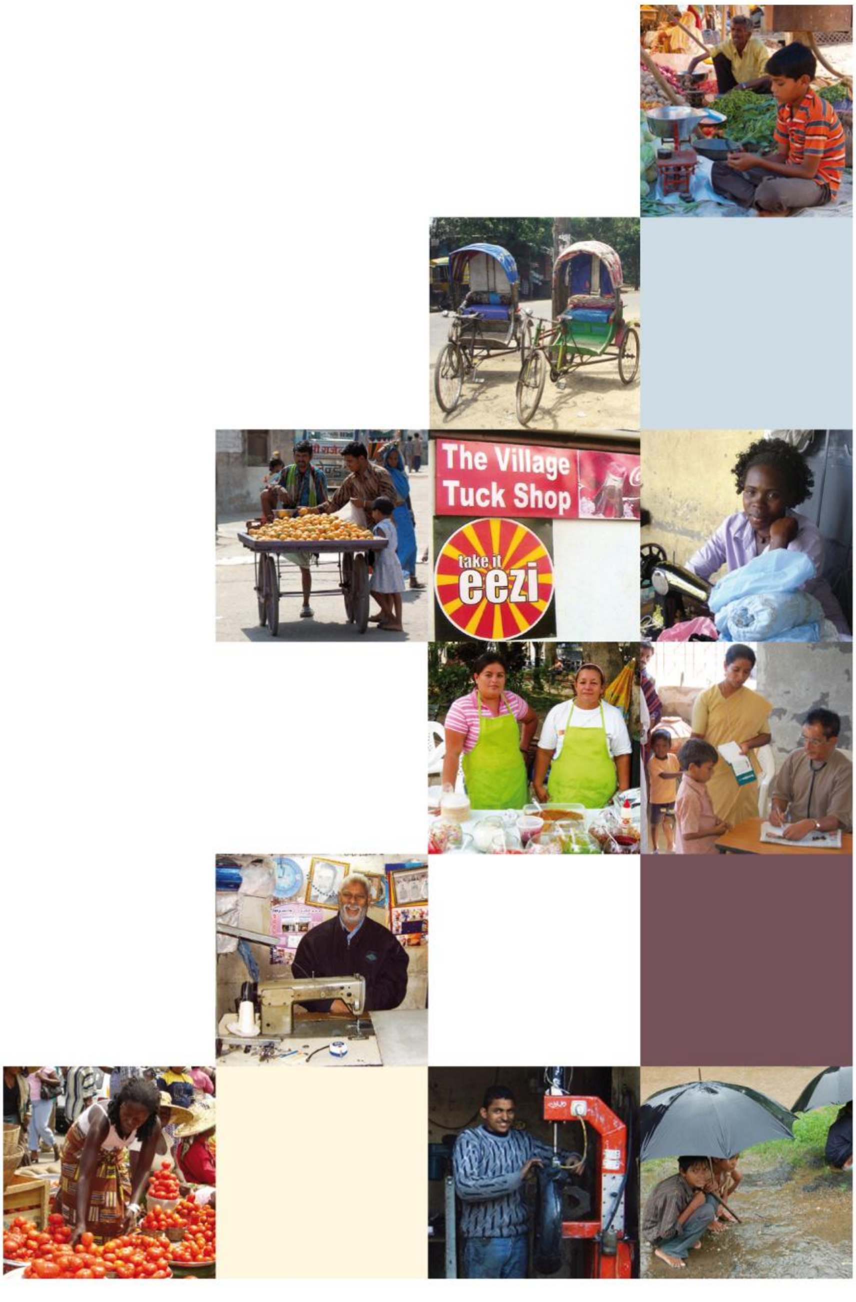
access to insurance initiative

Access to Insurance Initiative - Toolkit IV

Country-level microinsurance development process: operationalising the action plan

26/11/2013



VERSION 4 26/11/2013

Authors:

Christine Hougaard, with funding from FinMark Trust and ILO/UNCDF

Based on review, guidance and inputs by:

- Craig Churchill, on behalf of Advisory Committee
- Martina Wiedmaier-Pfister and Yoseph Aseffa on behalf of Technical Team (as well as feedback discussions by the Technical Team more broadly during its meetings in Frankfurt in September 2012)
- Hennie Bester, FinMark Trust/Cenfri on behalf of the Technical Team
- Antonis Malagardis, GIZ MIPPS Philippines
- Mark Achaw, GIZ Ghana
- Lemmy Manje and Juliet Munro, Zambia

About the Initiative Toolkit Series

This document is *Toolkit IV* in a series of Toolkits developed by the Access to Insurance Initiative, referred to in this document as '*the Initiative*'. The development of practical toolkits for microinsurance[1] development is part of the Initiative's inputs.

The G20 commitment to financial inclusion recognises that more than 2 billion adults, as well as millions of micro, small and medium-sized firms, do not have access to formal or semi-formal financial services. Increasing financial inclusion reduces the economic vulnerability of households, promotes economic growth, contributes to alleviating poverty and improves the quality of people's lives[2]. The inability to manage the risk of vulnerability caused by the sudden death of a family member, an illness, or the loss of income or property can perpetuate poverty. Low-income consumers are often excluded from financial markets, implying that they do not have financial protection to help them withstand such shocks. By helping them to mitigate shocks that could worsen their financial situation, insurance can support asset accumulation or prevent asset loss. It can also help to improve welfare over time, contributing to poverty reduction and social protection[3].

A number of "barriers" to access may undermine the inclusiveness of insurance markets. Such barriers can take many forms, including: affordability, appropriateness of product features, geography, culture, administration, logistics, and education[4]. One of the key activity areas of the Initiative is to undertake or draw on country diagnostic studies to form the basis of policy, regulatory, and market strategy for overcoming barriers in a particular country context and developing an inclusive insurance market. A thorough diagnostic study of the opportunities for, and challenges to, microinsurance development is only the first, albeit important, step; it should be followed by stakeholder-owned strategies to act on the findings and develop the market.

To assist stakeholders in this process, the Initiative has developed a number of toolkits:

- *Toolkit I* sets out the Initiative's analytical framework and methodology for market and regulatory diagnostic studies, to serve as a tool for conducting national microinsurance diagnostics.
- *Toolkit II: Country Process Guidelines for Microinsurance Market Development* positions the diagnostic relative to the broader microinsurance development process in a country and outlines the steps for catalysing and sustaining such a stakeholder-coordinated process.
- *Toolkit III* is aimed at insurance supervisors and provides tools for *supervisory self-assessment* and peer review on regulation and supervision supporting inclusive insurance markets, based on the 2012 IAIS *Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets*.
- *Toolkit IV* synthesises lessons across countries to date on how to respond to diagnostic recommendations as part of an in-country stakeholder process.

[1] Note that the term "microinsurance" is used throughout this document to denote inclusive insurance or access to insurance. It should be interpreted in the broad sense of the word.
[2] Source: IAIS, 2010. Summary of G20 Financial inclusion work and IAIS
[3] Source: Access to Insurance Initiative, 2011. *Inside the Initiative*. Available at: www.access-to-insurance.org
[4] Source: IAIS Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets, 2012.

The Access to Insurance Initiative

The Initiative was launched during the International Association of Insurance Supervisors' annual meeting in Rio de Janeiro, Brazil, in October 2009. It was created as a partnership between the following sponsors:

- International Association of Insurance Supervisors (IAIS)
- German Federal Ministry for Economic Cooperation and Development (BMZ)
- CGAP
- FinMark Trust
- International Labour Office
- United Nations Capital Development Fund

Other major partners include:

- Asian Development Bank
- FIRST Initiative
- GIZ/Making Finance Work for Africa Partnership
- Inter-American Development Bank through its Multilateral Investment Fund
- The Netherlands' Ministry of Foreign Affairs Directorate-General for International Cooperation

In addition to these partners, a number of other development organisations at country and regional level, as well as the respective insurance supervisors, support the work of the Initiative.
The Secretariat of the Initiative is hosted by the *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ) GmbH, on behalf of BMZ.

The Initiative supports the improvement of policy, regulatory and supervisory frameworks and works in partnership with insurance supervisory authorities. The core fields covered by the Initiative are: knowledge generation and dissemination, dialogue and learning, inputs for the development of standards and guidance, support regional implementation processes in the area of regulatory and supervisory reform, capacity development of insurance supervisors, and advocacy and participating in international platforms.

A2ii is the implementation arm of IAIS on access, a partnership which provides close connections with insurance supervisors and regulators worldwide and fosters rigorous oversight, the sharing of expertise and guidance from the industry's global standard-setter. For more information, please visit: www.access-to-insurance.org.

Table of Contents

List of tables

List of boxes

Abbreviations

A2ii	Access to Insurance Initiative
AML/CFT	Anti-money laundering/combatting the financing of terrorism
ASSFIN	Association of Rural Banks, Ghana
BIFSMO	Building Inclusive Finance in Mozambique
CNSP	Brazilian National Council of Private Insurance
CUA	Ghana Cooperative Credit Union Association
DNDPR	National Directorate for Promotion of Rural Development, Mozambique
FSB	Financial Services Board, South Africa
FSDP	Financial Sector Development Plan, Zambia
FSDK	Financial Sector Deepening Kenya
FSDT	Financial Sector Deepening Trust Tanzania
GHAMFIN	Ministry of Finance and Economic Planning, Ghana
GIZ	German International Development (*Gesellschaft für Internationale Zusammenarbeit Gmbh*)
IAIS	International Association of Insurance Supervisors
IC	Insurance Commission, Philippines
ICPs	Insurance Core Principles
ILO	International Labour Organisation
KPIs	Key Performance Indicators
MAF	Microinsurance Acceleration Facility, Zambia
MI	Microinsurance
MIPPS	Microinsurance Innovations Program for Social Protection, Philippines
MBAs	mutual benefit associations
NIC	National Insurance Commission, Ghana
PIA	Pensions and Insurance Authority, Zambia
PPP	Public Private Partnership
RIRF	Registrar of Insurance and Retirement Funds, Swaziland
RSP	regulation, supervision and policy
SAIA	South African Insurance Association
SPEED	Support Programme for Enterprise Empowerment and Development, Ghana
SUSEP	Superintendent of Private Insurance, Brazil
TAG	Technical Advisory Group, Zambia
TIRA	Tanzania Insurance Regulatory Authority
UNCDF	United National Capital Development Fund

1. Introduction

1.1. Role of Toolkit IV

This toolkit should be read together with *Access to Insurance Initiative Toolkits I and II*. *Toolkit I* outlines the methodology for conducting a country diagnostic study on microinsurance[5]. *Toolkit II* adopts a process orientation: it positions the diagnostic as part of a broader microinsurance development stakeholder process in-country and outlines each element of such a stakeholder process – from generating buy-in, to devising an action plan[6] for inclusive insurance market development, to operationalizing the action plan through various activities, to evaluating the impact of the activities and adjusting the strategy accordingly.[7]

A crucial element of the process is the formation of a domestic stakeholder working group, task force or committee, in which the supervisor plays a core role. The rest of this document refers to such groupings as "the stakeholder group". The purpose of the stakeholder group is to agree on the action plan, steer the implementation thereof and generally galvanize interest and buy-in among market and regulatory players to the microinsurance development cause.

Purpose. Toolkit IV concentrates on those parts of the process that deal with **agreeing on and executing the action plan**. Its purpose is to help the reader to grasp what it takes to get to the desired results or end-goal. It also outlines **potential activities** for doing so, and provides **practical tips and lessons to take into account in operationalising the action plan**. As source material, it draws on the typical recommendations in diagnostic studies across the thematic areas of demand, supply and policy, regulation and supervision, as well as the cross-country experience to date in rolling out stakeholder activities based on such recommendations. Thus, it is a "living" document that will evolve as new learning comes on board.

Scope. The Initiative, through its partnership with the IAIS, places particular emphasis on the role of supervisors. Thus, market interventions such as capacity development support for insurers generally fall outside the direct remit of the Initiative. Nevertheless, they are important activities as part of the "bigger picture" in any country. Just focusing on policy, regulatory and supervisory activities in the action plan risks a scenario where a detailed regulatory and supervisory intervention is pursued, only to find that there is no market response. Hence, this toolkit spans all action plan aspects relating to microinsurance development – demand, supply as well as policy, regulation and supervision.

Stakeholder action plan activities rather than regulatory implementation. This toolkit **does not aim to provide a technical manual for supervisors on what regulatory[8] reforms to**

---

[5] Note, again, that the term "microinsurance" is used throughout this document to denote inclusive insurance or access to insurance. It should be interpreted in the broad sense of the word.

[6] Note that we use the word action plan to refer to the domestic stakeholder-adopted activity schedule to operationalize the recommendations from the diagnostic study in order to develop the microinsurance market. One could also refer to this as a roadmap or strategy. The intention is not the creation of a bureaucratic document formally adopted by government, but rather an action-orientated plan agreed upon by stakeholders that can be quite flexible to adapt to changing market realities.

[7] For a full overview of the various steps in the process, the reader is referred to Toolkit II: http://www.access-to-insurance.org/fileadmin/data_storage/documents/internal_documents/2011%2010%2012%20Toolkit%202.pdf.

[8] Note that the term "regulation" and "regulatory" is used in its broad meaning in this document to refer to all contents of the regulatory framework, namely legislation and/or subordinate legislation, which may include "regulations", but also a number of other elements.

implement, and how. Guidance regarding proportionate regulatory reforms is the remit of the IAIS, as contained in the Insurance Core Principles[9] and the 2012 *Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets*[10]. Rather, this toolkit focuses on the stakeholder process to develop and operationalise an action plan towards microinsurance market development. Part of the action plan is for stakeholders to agree, where relevant, on regulatory proposals to be submitted to the supervisor, as well as on capacity building activities that can support the supervisor. The supervisor can then consider these proposals when deciding on which, if any, regulatory reform path it wishes to follow. This toolkit provides considerations regarding how to go about devising such proposals or activities, rather than on the contents of regulation.

Who can use this toolkit? **Toolkit IV is aimed at any party involved in or coordinating an in-country microinsurance stakeholder process**. The primary target audience is in-country stakeholders, including insurance supervisors[11] and market players from across the value chain that are driving or participating in such a process and want to learn from cross-country experience on different activities. Often coordination will take place via a development partner active in the country, or by an independent coordinator funded by development partners. Therefore, the toolkit is equally relevant for development partners wanting to support and empower market and regulatory stakeholders to develop and operationalise an action plan.

Structure

Section 2 recaps the *stakeholder process* that gives rise to the various activities as outlined in *Toolkit II*. It presents cross-country lessons on how to structure the process and provides tips for devising the action plan.

The rest of the toolkit unpacks experience to date, lessons and tips with regard to the *activities* that form the backbone of the action plan. It does so across the main thematic areas covered in the diagnostic studies:

- **Section 3** considers *policy, regulation and supervision*;
- **Section 4** focuses on *demand-side* or target market-related activities;
- **Section 5** considers the *supply* of insurance, considering activities with regard to the business case, capacity building and product development, respectively; and
- **Section 6** is dedicated to the *distribution* topic.

For each area, the toolkit starts off by summarising the prevailing conditions and common issues and/or challenges identified across diagnostics and the corresponding diagnostic recommendations[12]. This forms the basis for a discussion on actual activities pursued in the particular area to date, any lessons emerging on what has and has not worked, as well as

[9] Available at: http://www.iaisweb.org/Supervisory-Material/Insurance-Core-Principles-795
[10] Available at: http://www.iaisweb.org/Supervisory-Material/Application-papers-763
[11] Note that, in line with International Association of Insurance Supervisors (IAIS) practice, all references to "supervisors" in this document refer to the insurance supervisory authority and should be understood to include "regulators".
[12]Drawing on diagnostic reports from Colombia, India, the Philippines, South Africa, Uganda, Ethiopia, Zambia, Brazil, Kenya, Swaziland and Mongolia as well as findings shared in discussion by representatives from Ghana.

potential activities that can be pursued in response to diagnostic recommendations. Where relevant, tips or lessons to take into account in choosing and rolling out such activities are also outlined.

Section 7 considers how to monitor progress as well as the impact of a microinsurance stakeholder process.

Finally, **Section 8** summarises potential action steps, lessons and tips outlined throughout this document.

2. Process and action plan considerations

In order to meaningfully implement activities, it is important to first have an effective action plan embedded in a well-structured process. This section outlines lessons for each of these two aspects.

2.1. Stakeholder process lessons and tips

There are many challenges in coordinating the stakeholder process and maintaining momentum. The stakeholder process is not always a deliberate effort following a country diagnostic; in some countries it evolved organically with one or more stakeholders taking the lead without a diagnostic study. Likewise, it does not necessarily start off with a clean slate; sometimes the stakeholder process may build on prior activities and existing agendas. Neither is it necessarily an organised or deliberate process. Sometimes, the reality is that there is no "model stakeholder process", but just a few elements or activities. It may also be that the process does not encompass all the relevant stakeholders or that it is entirely driven by one enthusiastic stakeholder or development organisation. Even in such cases, many of the tips and lessons in this toolkit will be applicable.

Below, the discussion is positioned as if for a concrete stakeholder process.

A country-by-country overview of examples of microinsurance stakeholder processes to date is provided in Appendix 1. Cross-country learning suggests a number of tips for organising the stakeholder process towards implementation of the action plan:

Tips for an effective stakeholder process

1. **A representative structure.** Some structure is needed through which strategic activities can be pursued. This can be called a working group, a task force, an advisory committee or a steering committee, but essentially fulfils the same role, namely to form a platform for stakeholder representatives from the value chain and the policymaker and regulator to agree on an agenda for microinsurance development and pursue activities to operationalise that agenda. Convening such a group in a way that achieves the right level of representation, while still ensuring a nimble structure, is fundamental to the success of the process. Follow an inclusive approach: bring as many stakeholders as possible to the table as early on as possible. At the same time, caution against becoming so inclusive that it slows down or derails the process. Take care to involve the right people from the right organisation, those with the drive and mandate to contribute meaningful ideas and then "see it through". To do so, it is not sufficient to merely send out impersonal

invitations for participation in the stakeholder group; bilateral discussions are needed to explain the rationale and determine the most appropriate persons to involve.

2. **Ensure buy-in by speaking to different needs and incentives.** Keep in mind that the incentives of participants to participate in (and, by implication, dedicate resources to) the process will never be purely altruistic. For example: insurers may be on the lookout for business ideas or capacity, potential delivery channels may seek to diversify their business and the regulatory may want to generate regulatory outcomes. It is therefore important for the process to understand and, where possible, address the agendas of all parties. Some of the parties may even have conflicting interests – for example: insurers competing for a foothold in the market. This may inhibit free sharing of information. The focus of the process should therefore be to find the common ground and generate outputs to the benefit of all parties.

3. **Leverage existing processes.** In some countries there would already have been substantial activity on the microinsurance front or with regards to financial inclusion more broadly. If a group dedicated to developing the low income market already exists (for example: within the industry association or government), it is best to work with that group or incorporate it in the bigger stakeholder group. In this way, the stakeholder process is strengthened by leveraging existing initiatives.

4. **Share outputs beyond the core group.** Although for practical reasons the process will work through a core group of stakeholders, it is important that the benefits of the activities are reaped beyond this core group by all stakeholders. The purpose of the process is to generate public goods - information, regulation, platforms, etc. – that will serve multiple players in the public and private sectors. It cannot be predicted which players will be able or interested in using these outputs most productively to extend access to insurance. Communication is thus a core function of the process, and any attempts to keep the information within a proprietary group should be resisted.

   Broader sharing can be achieved by building in periodic feedback loops to stakeholders at large, for example: by producing a newsletter or email that is sent round to a distribution list of all stakeholders. Alternatively this could be done by organising workshops, seminars or training courses to which all interested stakeholders are invited. It is also important to ensure that the core group members are selected through a transparent process. For example: they can be nominated at a representative stakeholder meeting or workshop.

5. **A coordinator to drive the process.** It is imperative that someone coordinates the activities of the group and ensures that momentum is maintained. To ensure effective coordination, a coordinator can be appointed on a part or full-time basis to engage stakeholders, schedule meetings, compile minutes and initiate and manage projects in the action plan. Where funding constraints or other considerations mean that no dedicated coordinator is appointed, a designated stakeholder from the group can take explicit responsibility for coordination or the coordination role can be rotated between stakeholders. *Appendix 2 provides an example of a coordinator job description*.

6. **Local ownership.** Upfront buy-in, based on true interest, and on-going ownership of the process by local stakeholders is essential – development partners should never be the owners or face of the process. Yet development partners often have a leading role in

supporting and empowering others to lead. They need to work behind the scenes to secure buy-in, involvement of the right parties[13]and coordination.

7. **Endorsement by the supervisor**. While it will always be a multi-stakeholder initiative, endorsement by and /or the support of the supervisor is important to the success of the stakeholder process –in terms of the credibility of the group, in ensuring the impact of action plan activities, as well as in fundraising. Some aspects of the action plan, for example the gathering of data, may also require direct supervisory intervention. In some instances, the supervisor may chair or convene the stakeholder group, in others the supervisory authority may merely be an active participant, with another party as chair. It is important to secure buy-in from the supervisor through some commitment, for example: through in-kind contribution of staff time to the group, or by providing office space for the local coordinator. It is also important to ensure that the financial sector policymaker, typically the Ministry of Finance and/or the Central Bank, depending on the country context, is on board. This provides an official mandate for the supervisor to pursue insurance inclusion under the broader financial sector policy umbrella. Where other fields such as agriculture, health or cooperatives are relevant to microinsurance development in the country context, it is good to also involve relevant supervisory authorities from such fields in the stakeholder group.

8. **Sequencing.** Another core lesson relates to the order in which things happen as part of a stakeholder process. The process, as set out in *Toolkit II*, starts with buy-in upfront followed by the diagnostic and then the various steps of the stakeholder process. However, experience to date suggests that things do not always happen in this sequence. Often, the diagnostic came first, with buy-in having to be sought after its completion. This may undermine stakeholder ownership of the findings. On the other hand, depending on the country context, it may be difficult to achieve buy-in without an information base to share with stakeholders, so there may be a need for some diagnostic exercise upfront. It may also be that some stakeholders will only join the process once they see tangible results or experiences. In such cases, it may be that those driving the process initially need to sequence activities to show some "quick-win" results in order to achieve broad-based buy-in before embarking on more long-term strategies.

9. **Maintain momentum across a clear time frame**. Upfront buy-in and a dedicated coordinator will go a long way to ensure that momentum is maintained. The same holds for clear and realistic milestones set as part of the strategy process. Meetings should be held regularly, but not so frequently that they place unrealistic demands on participants' schedules. It is also important to celebrate early successes, build in regular feedback loops on progress towards the ongoing refinement of the strategy, and ensure that there is a demonstration effect that will trigger action among other stakeholders.

   However, momentum should not necessarily be maintained indefinitely. It may be valid to define an exit point after a realistic timeline, or to reconsider the role of the group once the objectives set upfront have been reached. In this way, commitment is secured for a core period with a clear target, followed by looser engagement after that.

[13]This could for example involve drawing in the actuarial association, the banking and MFI industry and various potential aggregators alongside insurance industry and regulatory/supervisory authorities.

2.2. Action plan tips

The action plan is a structured collection of activities that stakeholders have agreed to pursue. It highlights priorities in terms of sequencing and thematic areas, assigns responsibilities and makes funding allocations to activities where necessary. A properly designed action plan ensures that only activities of strategic relevance are pursued and this maximises stakeholder value. Hence, once a stakeholder group has been formed and buy-in has been secured, devising an action plan should be prioritized as the first activity.

Tips to take into account when developing an action plan

1. **Dedicate time to get it right**. To be effective, the action plan needs to take account all of the realities and must speak to all stakeholders' objectives. To ensure that this occurs, it is important not to rush the process of drawing up the plan and to ensure that a digestible, action-oriented document is produced. Here, the process followed in the Philippines is a good example: stakeholders convened once a month for two days at a time at an offsite venue to thrash out the details of the strategy and directly draft the text. The offsite venue, well-structured agenda and clear time schedule towards a final strategy ensured a focused process and outcome.
2. **Be context-specific**. The action plan has to be informed by the country context and an understanding of the country-specific market and value chain realities and constraints, regulatory framework and enabling environment. It cannot simply be a copy of what was done in another country.
3. **Understand market dynamics**. The diagnostic methodology ensures that diagnostic studies arrive at conclusions and recommendations based on a thorough market and regulatory understanding, but the resultant studies are often very long. One of the initial action plan activities could be to properly digest the diagnostic findings so that they can form the basis for deliberations on strategic activities to pursue[14]. Part of the digestion process should be to identify areas which stakeholders need to explore more. For example more demand analysis and building these further research needs into the action plan. Where no diagnostic was conducted, a first-order activity will be to build a good understanding of market dynamics, be it by commissioning research, digesting existing literature, conducting workshops, or other means.
4. **Set clear goals and align activities to desired outcomes**. All strategic activities must relate to a number of clear objectives to be achieved through the process. These objectives will be set based on the key opportunities and challenges in the local context as highlighted by the diagnostic and the stakeholder workshop(s) and discussions stemming from it. The activities pursued should then be explicitly designed to address gaps or unlock opportunities towards the agreed objectives.
5. **Be realistic.** The old adage not to "bite off more than you can chew" is particularly relevant to an action plan. To avoid players losing interest and momentum being lost, the activities, time frames and funding commitments should be feasible. It is therefore important to be strict in prioritising only a few actions that are: (i) most likely to contribute to achieving the strategic goals; and (ii) realistic to implement given the available resources and time.

[14] Where the group is already set up before the diagnostic is completed, with the diagnostic as one of the first activities pursued, the group should fulfil a steering role to ensure that the study covers all relevant aspects and findings are packaged in an accessible way.

6. **Be willing to change.** Being realistic also means being willing to adapt as the market develops or as the enabling environment changes. Even with a good strategy and action plan, if the initial interventions are not gaining traction, it is important to look at new strategies and interventions that can yield better market development results. Market changes resulting from initial action plan activities can also influence the refinements and sequencing of subsequent actions.

7. **Smart fundraising**. Converting a plan into action needs funding. A fundraising strategy should be proactively built into the action plan. Key considerations include:

   - *Funding allocation*. It is important to allocate funding for the roll-out of specific projects identified in the action plan. The budget should be realistic and allow for contingencies and overspend due to unforeseen events. In addition, there should be general funding available to fund the role of a coordinator and for overheads such as the hosting of meetings. The coordinator function is essential to the success of the process, thus funds need to be earmarked for it.
   - *How much is needed?* Sometimes even small budgets can be sufficient to keep the momentum going and implement defined projects, as long as there is flexibility to be nimble in how funds are allocated. This may be preferable to waiting for larger pots of money to become available.
   - *Who funds?* Often, the primary funding source will be donors, development organisations or regional development banks. However, there will also be situations where the supervisor allocates funding from its own budget or allocates a resource from the supervisory staff to do coordination, or where participating private stakeholders make contributions. Cash or in-kind contributions by government and private sector stakeholders participating in the process are a powerful signal of buy-in and will ensure on-going commitment. Furthermore, government support for the stakeholder process is critical in getting other funders on board.

     In-kind contributions can, for example, include time set aside for stakeholder group activities, sponsoring of office space or covering staff members' costs to attend stakeholder events. Cash contributions include industry investments in microinsurance pilots or partnerships, as well as product or process innovations triggered by the stakeholder process.
   - *Know your funders***.** Where donor fundraising is conducted, it is important to understand potential funders' parameters and to take these into account when devising the action plan. For example, some funders cannot allocate amounts of funding below a certain threshold and would need to be approached for larger programme funding. Others have the flexibility to dedicate small amounts as the need arises. Equally important is to speak to funders' agendas and priorities.
   - *Funding modalities*. The funding strategy can comprise a mix of funding modalities, with contingency plans in place, should the initial strategy not render the desired results. Potential funding modalities include:
     - *Involvement of one or more core funders from the start*. In a number of countries, the commitment of one or more core funders upfront was important in kick-starting the process. Other funders then join along the way or commit on a project by project basis. If there are no anchor funder(s), the risk is that the roll-out of the action plan is put on hold due to funding constraints. Care should,

however, be taken to ensure that the process does not become dependent on one core funder to the extent that it collapses if, for whatever reason, that funder pulls out, or that the action plan becomes hostage to the agenda or goals of one specific funder.

- *Ad hoc fundraising*. Alternatively, the stakeholder group, most likely via the coordinator, would raise funds on a project-by-project basis for the various phases or components of the action plan[15].

8. **"Do-it-yourself".** While it is important to learn from experience elsewhere, no action plan can simply be copied over from one country to another. There is no single template for what an action plan should look like and it is up to the stakeholders to craft it in the local context.

3. Policy, regulation and supervision

Interplay between policy, regulation and supervision. The term "policy" denotes the declared intention of a government on how it wishes to order the financial sector and the objectives that it envisages to achieve. "Regulation" refers to the various legal instruments with binding legal powers (primary legislation as well as subordinate legislation) that together comprise the regulatory body or framework pertaining to insurance, as well as guidance that does not have the force of law. It encompasses the action of regulating the insurance industry to achieve the policy goals, including the development of regulatory requirements. "Supervision" describes the functions whereby the state seeks to ensure compliance with regulation – it therefore represents the implementation and enforcement of regulation (Bester et al, 2008)[16].

Why should an action plan cover policy, regulation and supervision? In theory, the policy, regulatory and supervisory framework for insurance in any country will be informed by the objectives and the unique market realities in that country. The IAIS Insurance Core Principles accommodate proportionality relative to the nature, scale, and complexity of insurance business. Consistently applied, this would mean that the framework in each developing country would be tailored to its domestic realities and, where microinsurance is defined to represent systematically lower risk, to its particular risk characteristics. Practice, however, often deviates from theory: capacity-constrained supervisors may opt to copy an approach from another country or rely on international consultants to bring regulation up to international standards without due regard to proportionality.

An essential part of the purpose of the diagnostic exercise is to unearth the drivers of policy and regulatory reform on the one hand and how policy, regulation and supervisory approach and capacity drive market development on the other hand. The stakeholder process should then: encourage facilitative policy initiatives and empower the supervisor to strategically pursue regulatory reforms, to overcome the identified constraints and implement a proportionate approach to support inclusive insurance market development.

[15] For example, the supervisor could apply for FIRST Initiative funding for regulatory/supervisory reforms.
[16] Source: Bester, H.J., Chamberlain, D., & Hougaard, C., 2008. Making insurance markets work for the poor: microinsurance policy, regulation and supervision. IAIS-Microinsurance Network Joint Working Group on Microinsurance. Cross-country synthesis document. Available at: www.access-to-insurance.org.
Note, again, that in line with IAIS practice, the term "supervisor" is used in this document to also refer to the regulator.

Using a consultative stakeholder process to make inputs to or propose policy, regulatory and supervisory strategy is therefore an important part of the action plan – *noting that actual decisions on regulatory reforms will always be the prerogative of the supervisor*. The rest of this section considers cross-country learning regarding possible activities aimed at the policy, regulation and supervision levels, respectively.

3.1. Policy

A policy stance to promote access to insurance can be contained in a specific policy document such as a dedicated national policy framework for the financial and/or insurance sector, but can also be a general policy declaration contained for example in speeches, in the preamble to legislation or in other documents. Policy may sometimes be sufficient, in itself, to achieve government objectives without regulation following from the policy. In most instances, however, policy is the backdrop against which regulation is then developed. The financial sector policymaker is generally the Ministry of Finance or the Central Bank, but the insurance supervisor can also take a policy stance with regard to growing inclusive insurance markets.

Prevailing conditions

The diagnostic studies highlight a number of typical policy-related findings, challenges and recommendations (see Box 1):

Box 1. Typical policy challenges and recommendations across diagnostic studies[17]

Challenges:

- *Absence of a policy.* In most countries, there is no dedicated financial inclusion or microinsurance policy.
- *Developing inclusive insurance markets is not a policy priority.* Where there are other urgent policy objectives, for example, a fiscal crisis or the need to reform regulations to be on par with international standards, financial inclusion may not be an immediate policy priority.

  Furthermore, there is often a history of a state-owned monopoly, recent liberalisation and an insurance supervisory authority that is only a few years old. These factors shape policy objectives and dynamics, implying that the need to promote inclusive insurance markets may be a secondary objective.
- *Sub-optimal policy impact.* In some cases, there are one or more financial inclusion-relevant strategies. However, such initiatives are fragmented, calling for a coordinated approach. Where existing strategies are not based on a sound market understanding, they have limited impact.
- *Supervisors do not see development of inclusive insurance markets as part of their statutory mandate.* They may, for example, regard it as the ambit of the Ministry of Finance. Given the emphasis on inclusive insurance markets within the IAIS as well as the G20 commitment to financial inclusion, an explicit financial inclusion mandate at country level is not necessarily a prerequisite for supervisors to pursue market development. Nevertheless, where supervisors have an explicit development mandate, it strengthens their ability to support the development of inclusive insurance markets.

[17] Drawing on diagnostic reports from Colombia, India, the Philippines, South Africa, Uganda, Ethiopia, Zambia, Brazil, Kenya, Swaziland and Mongolia as well as findings shared in discussion by representatives from Ghana.

Typical policy recommendations:

1. *Develop a financial inclusion policy.* Diagnostics typically recommend that some financial inclusion policy stance be taken, but do not give details on how to go about it or what would constitute a successful policy.
2. *Include inclusive insurance under the broader financial inclusion policy* where this exists, or in some other way adopt an official position to support the development of an inclusive insurance market. Explicitly define the policy objectives for the insurance sector to include market development and make the balancing act between objectives explicit where relevant.
3. *Be informed by the macro and socio-economic context as well as market realities* in defining the policy stance.
4. Coordinate between different government departments relevant to financial inclusion, as well as between the financial sector policymaker and supervisor where inclusive insurance market development is concerned.

Action plan implications

Thus far, few in-country stakeholder processes have explicitly incorporated policy actions, though the financial sector policymaker is often involved in the stakeholder group. Example policy activities include:

- In South Africa, the National Treasury as policymaker and the Financial Services Board as supervisor explicitly cooperated to formulate a policy document on microinsurance that sets out the objectives and parameters for the regulatory framework. The approach to microinsurance is anchored in National Treasury's broader financial inclusion policy commitment.
- In the Philippines, the National Credit Council as coordinating body under the Department of Finance played a key role alongside the Insurance Commission in developing a national microinsurance strategy. It provided the necessary policy support for the regulatory reforms rolled out under the strategy.
- In Zambia, the Pensions and Insurance Authority (PIA) issued a simple one-page policy statement to state that it will accommodate microinsurance market developments. This was one of the first actions stemming from the stakeholder process and was positioned as a precursor to regulatory reforms, a means of signalling an in-principle policy support for microinsurance to the market and to encourage market players to respond.

Cross-country learning suggests the following tips for policy-targeted activities:

Tips for activities aimed at the policy level

1. **Navigate the policy-making landscape.** When deciding on which policy-related activities to include in the action plan, stakeholders should understand who has the authority to make policy, who has the ability to move the political economy (be it the Ministry of Finance, the Central Bank or another authority) and how policy is developed. This will enable stakeholders to engage and get buy-in from the right individuals within the right organisations.
2. **Determine the most appropriate format.** Deciding how to convey the policy position is important, be it a formal policy document, a ministerial statement or a circular from the supervisor.

3. **Understand broader policy levers**. What are the available policy levers in the broader financial sector policy environment? For example, there are various inter-linkages between insurance and credit, payment systems and deposit-taking. By leveraging or linking to policy priorities in these areas, the insurance cause can be promoted.
4. **Recognise the importance of signals to the market.** Industry needs something "formal" to respond to and enough regulatory certainty to allow them to make investment decisions. A simple policy statement signalling the supervisor's support to inclusive insurance can therefore play an important role in the short-term, even if actual regulatory reforms take several years to design and implement.
5. **Work with what you have.** Let the current situation and the government policies that are already in place, for example: on economic or rural development, on microfinance, or a financial sector development strategy or plan, be the point of departure or "hooks" for incorporating a financial inclusion and/or inclusive insurance policy objective.
6. **Nimbleness over bureaucracy**. While it is important to build on existing policy movements within government, a microinsurance development policy does not necessarily need to be part of a formal national strategy. In fact, it may stall the stakeholder process if a full bureaucratic process must first be followed to devise and adopt an official national strategy. On the other hand, a national strategy may have value in that it is something that becomes binding (for example that the supervisor can use to bring ,for example, the Ministry of Health or of Agriculture and Cooperatives on board) and that stays in place, even should the ruling government change. There is therefore no single recommendation in this regard and the merits of adopting an official national strategy should be assessed in the particular country context.

In summary: a supportive financial inclusion policy stance helps to clarify the supervisor's mandate and can help it to secure resources for a particular course of action. It furthermore creates synergies and scope for cooperation with other authorities and can motivate the private sector to become involved in microinsurance. It is therefore an important area to consider in the action plan.

3.2. Regulation

Generating regulatory proposals informed by market realities is an important part of the stakeholder process and various action plan activities can feed into such proposals. As a starting point, it is important to understand how the legal process works in the particular country, as well as the generic ways in which regulation impacts on market development, namely:

- **By determining who can participate in the market**. Regulation sets entry requirements. This can be done by institutional type as well as by setting the bar in terms of prudential and registration requirements at a certain level. Entry requirements are also set for intermediaries through fit and proper requirements, including: competence, qualification and/or experience requirements.
- **By setting conditions for market participation.** Licensing conditions compel or prohibit certain activities. Where supervisors pursue inclusive insurance markets, they may

require insurers to implement a certain level of customer disclosure, to simplify policies in a stated way, or to limit a product class to certain parameters.

- **By impacting on cost structures.** By increasing or easing the regulatory burden, regulation can impact on new business investments, product design innovation, wider channel choice and the relative attractiveness of various target market segments.

Carrots and sticks. All of these regulatory instruments work by either creating *incentives* or imposing *compliance requirements,* or some combination of the two. Incentives reward behaviour meeting certain criteria, whereas compliance requirements require supervisory enforcement.

Prevailing conditions

The diagnostic studies conducted to date highlight a number of regulatory findings, challenges and recommendations. Appendix 3 contains a detailed summary of challenges and opportunities identified for each of these areas across diagnostic studies to date, with country examples, as well as the corresponding recommendations. Box 2 summarises the most typical challenges and recommendations:

Box 2. Typical regulatory challenges and recommendations across diagnostic studies18

The regulatory challenges and corresponding recommendations across diagnostics typically relate respectively to *prudential* regulation, including product regulation, *market conduct* regulation, *institutional* regulation and *corporate governance* regulation as cross-cutting themes. In addition, other ancillary areas of regulation, such as the cooperatives framework or anti-money laundering regulation, may also be relevant to insurance market development.

The diagnostics point to varying levels of regulatory barriers in different countries. In some, there may be regulatory inconsistencies that create uncertainty in the market as well as other small aspects of the regulatory framework that could be tweaked to facilitate microinsurance development without the creation of a separate regulatory space for microinsurance. In others, the regulatory barriers may be substantial, calling for a dedicated microinsurance regulatory framework. The main challenges identified across diagnostics include:

Category	Example diagnostic findings
Prudential	• Prudential regulation either sets very high entry barriers and ongoing requirements, or is outdated and not sufficient to ensure soundness. • Inconsistencies or gaps in definitions create confusion, lead to regulatory arbitrage or undermine a level playing field. • Strict demarcation between life and non-life undermines bundling in the microinsurance sphere; where composites are allowed, this has helped shape the microinsurance market. • In some jurisdictions, absence of health insurance-specific regulation creates uncertainty and an uneven playing field. • Local investment, ownership or staff requirements may shape industry structure and impact on microinsurance investment decisions.

[18] Drawing on diagnostic reports from Colombia, India, the Philippines, South Africa, Uganda, Ethiopia, Zambia, Brazil, Kenya, Swaziland and Mongolia as well as findings shared in discussion by representatives from Ghana.

Market conduct	• Onerous intermediation regulation, for example, in terms of registration and fit and proper requirements, has a transaction cost impact and can change dynamics in the market. • In a life vs. non-life demarcated regime, limiting an agent to an agreement with only one insurer is a barrier to microinsurance distribution. • Regulation for the most part does not as of yet allow intermediary categories other than brokers and agents, or for administration, outsourcing and other non-traditional intermediation functions. • Commission/price caps may not be desirable or effective.
Institutional	• Where there is no institutional space for mutual structures in insurance provision, it forms a regulatory barrier. • The extent of the barrier depends on whether there are potential "takers" of a licence in the mutual sphere.
Corporate governance	• Corporate governance standards for entities currently outside of the insurance regulatory net are often lacking.
Ancillary fields	• Barriers imposed in non-insurance regulation undermine microinsurance development. Examples include: AML/CFT, tax or payment system/electronic contracting constraints.

Diagnostic recommendations vary according to the specific regulatory framework, market realities and needs in the particular country[19]. Examples include:

Category	Example diagnostic recommendations
Prudential	• Clarifying product definitions (for example of funeral insurance or health insurance) to remove regulatory uncertainties or grey areas that hamper microinsurance market development. • Defining microinsurance as a product category - in some instances the recommendation is to do so across the life-non-life demarcation divide - to enable regulatory concessions to be made for dedicated microinsurance providers or distributors. • In some instances: defining a separate prudential tier/dedicated licence, with appropriate restrictions, for microinsurance whereby prudential requirements are tailored to the nature, scale, and complexity of microinsurance as defined. • Critically assessing the regulatory burden implied by prudential requirements such as reporting, actuarial requirements and others to see how, if at all, it could be tailored to the nature, scale and complexity of microinsurance as defined.
Market conduct	• Expanding the types of intermediaries and their functions so as to facilitate microinsurance market development. • Tailoring the qualification, experience and other requirements for intermediaries to microinsurance market realities. • Paying particular attention to consumer protection in the microinsurance sphere, including emphasising reporting so as to monitor consumer value and market practices.
Institutional	• Opening up the institutional space for microinsurance beyond companies to also include mutual, cooperative or other community-based organisations.

[19] Refer to the IAIS *Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets* for detailed guidance.

Corporate governance	• Ensuring that all microinsurance providers, regardless of institutional form, meet an acceptable level of corporate governance.
Ancillary fields	• Considering defining microinsurance as low-risk as part of moving to a risk-based anti-money laundering/combatting financing of terrorism regime. • Coordinating with supervisors of ancillary regulatory fields such as health, agriculture or cooperatives to align regulatory requirements where jurisdictions overlap. • Considering tax treatment of microinsurance (only in some instances).

The recommendations typically advocate a proportionate regulatory approach, but stop short of saying what the exact contents of regulation should be.

Action plan implications

Action plan activities aimed at the regulatory level could range from deliberations on the contents of regulatory reform, to technical assistance to supervisors for the drafting of regulation. Examples of activities embarked on in various countries to date include:

- **Facilitating a solid market understanding** to inform the regulatory process**.** Where a diagnostic has been conducted, analysing the diagnostic findings has a particularly pertinent role in recommending regulatory actions, as the diagnostic provides the baseline market information[20] that can help to inform regulatory priorities.

- **Assessing current regulation against compliance with international standards and guidance**, namely the Insurance Core Principles and the *Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets* adopted by the IAIS in 2012.

- **Facilitating peer learning** between regulators, for example by sponsoring the supervisor to attend regional or international seminars.

- **Assisting the regulator with the process to develop regulation**, for example, by hosting forums for industry inputs, disseminating draft outputs, generating submissions for regulatory consideration or facilitating the consultation process.

- **Drawing up a regulatory framework document** that precedes regulation. Such a document allows stakeholders to agree on the objectives and rationale for addressing microinsurance, to set the definition parameters and decide on the strategy for regulatory reform. Examples include: the Regulatory Framework adopted as part of the *National Microinsurance Strategy* in the Philippines in 2010, the *Microinsurance Policy Paper* published by the National Insurance Commission in Ghana in 2010 and the *Policy Document* on the microinsurance regulatory framework published in South Africa in 2011. Note that these documents are also relevant from a *policy perspective* as discussed in Section 3.1.

[20] Where a regulatory process is only initiated a while after the diagnostic or takes several years to design, it will be important to take stock of changes in the environment or regulatory framework since the publication of the diagnostic.

- **Coordinating across institutional supervisors** where joint initiatives are required. This was for example the case in the Philippines, where the Insurance Commission, the Cooperative Development Authority and the Securities and Exchange Commission issued a *Joint Circular* in 2010 to incorporate previously informal insurance activities by cooperatives and pre-need companies into the insurance regulatory framework.

- **Providing technical assistance** for the preparation of draft regulation and its technical review. This can include consultant input to help develop the framework or assess its potential impact, as well as contributing legal drafting capacity.

- **Commissioning a study to assess the "readiness" for microinsurance compliance** among entities that operate outside of the regulated insurance sphere and to determine the estimated regulatory impact/compliance cost of moving to a licensed microinsurance regime in order to inform the details of the envisaged regulatory framework. This has been done in South Africa, with the results shared with the policymaker and supervisor to help shape the finalisation of the regulatory framework.

- **Identifying key regulatory aspects to cover.** One of the first action plan priorities with regard to regulation, before embarking on most of the other activities outlined above, should be to define the key regulatory aspects to be addressed in the specific context and the best way to do so. As outlined above, determining the focal areas may require considerable research, dialogue between public and private stakeholders and unpacking of the implications of a potential change. The hosting of workshops, expert meetings, sourcing of external advice, or facilitating exchanges with other jurisdictions that have undergone regulatory reform are all activities that can benefit this crucial step. Reaching a decision on key aspects of the proposed regulatory framework can include the following considerations (note that this is not an exhaustive or prescriptive list, but is intended as indicative only):

  - Is a special dispensation at all needed for microinsurance in the particular country? If so:
    - What process could be followed to develop and implement regulatory change?
    - What elements could be included in microinsurance regulation?
  - Is it necessary to have a formal microinsurance definition in regulation?
  - What legal instrument to use?
  - How to see the regulatory process through?

Below, each is unpacked in turn.

3.2.1. Is a special dispensation needed for microinsurance?

Whether a dedicated regulatory dispensation is needed for microinsurance or not will depend on the analysis of the current regulatory burden and incentives for market expansion. Developing a special dispensation can be a time and resource intensive process and may not always be necessary. Instead:

- It may well be that the analysis indicates that **only small tweaks** to the regulatory framework are required to clarify uncertainties and remove disproportionate barriers.

This has, for example, been the case in Mexico, where the supervisor adjusted two circulars to accommodate microinsurance-relevant product parameters and intermediation requirements.

- In some cases, the decision may be to **not make any regulatory changes**, and then to reassess a few years down the line how facilitative the regulatory framework is and whether current market practices raise any consumer protection concerns that need to be addressed. For example, in Colombia the 2007 diagnostic highlighted that government had decided not to create a dedicated regulatory framework as the current framework was already regarded as conducive to microinsurance market development. Data collected by the industry association, FASECOLDA shows that the number of "microinsurance risks" covered (microinsurance policies) increased from 1.5 million in 2008 to nearly 8 million in July 2011 even in the absence of dedicated regulation[21]. The decision to incorporate microinsurance in regulation will again be considered as part of a follow-up diagnostic.
- In other instances, the decision may be to not prioritise changes to the insurance regulatory framework, but rather to facilitate market development through facilitative changes to **ancillary regulatory fields**. The best example here is Ethiopia, where limited insurance industry capacity to roll out microinsurance prompted government to allow MFIs that serve low-income households and that have technical and financial capacity to provide in-house insurance with strict supervision. This provision was included in the microfinance law rather than insurance law and has to date made it possible for MFIs to provide microinsurance (mostly credit life, but with the product suite diversifying into health, accident, disability and life cover) to some 2 million households. This move has prompted further innovations and partnerships between insurers and MFIs in, for example, the weather index insurance sphere.

Thus, the principle of proportionality can be applied without necessarily developing a dedicated microinsurance regime.

Another option would be to follow a "test and learn" approach as entrenched in the G20 *Principles for Innovative Financial Inclusion*[22]. This approach entails that, before embarking on regulatory reform, supervisors go through a period of observing or monitoring market developments[23]. They then only implement regulation if the need for it becomes apparent and do so in a way that responds to market trends. One example is Zambia: the supervisor initially just issued a one-page policy statement to signal that it would accommodate innovative microinsurance approaches by the market. A few years later, it has now developed a regulatory framework that takes account of market developments. In this instance, no dedicated microinsurance reporting and/or monitoring took place, but the supervisor remained up to date with microinsurance trends and plans through the stakeholder group as a coordination platform.

---

[21] As quoted in Volume II of the Microinsurance Compendium, Chapter 1

[22] Principle 7 on Knowledge states: "Utilize improved data to make evidence-based policy, measure progress, and consider an incremental "test and learn" approach by both supervisors and service providers. … A number of countries have [adopted] a "test and learn" approach that has enabled them to examine new services and untried business models under carefully controlled conditions. As a result, they are better able to strike an appropriate policy-regulatory balance between safety and soundness on one hand, and growth and development on the other". Source: http://www.gpfi.org/sites/default/files/documents/G20%20Principles%20for%20Innovative%20Financial%20Inclusion%20-%20AFI%20brochure.pdf

[23] For example by asking insurers to track and report on their inclusive insurance market activities based on a common understanding of what inclusive insurance would entail

On the other hand, as the discussion below shows, many countries have opted to create a tailored regulatory dispensation for microinsurance.

Whether or not to carve out a regulatory space for microinsurance is for the supervisor to decide, but the stakeholder process can provide inputs to the supervisor in this decision by analysing how facilitative the current framework is and proposing recommendations to overcome identified barriers.

3.2.2. What process could be followed to arrive at regulatory proposals?

The decision to recommend a special microinsurance dispensation is only the first step. Next, agreement is needed on what process to follow to arrive at specific proposals as well as what to include in the microinsurance regime. The answer will depend largely on the political economy, legal system and supervisory approach followed in the particular country. Some supervisors may opt to directly drive the process, others to explicitly involve stakeholders in a consultative process. Box 3 provides some examples observed to date:

Box 3. Examples of regulatory reform processes

- In **Brazil** a consultative approach was followed: the supervisor incorporated industry members, through the industry association, on a consultative commission alongside government representatives to investigate the various input topics that led to the drafting of a microinsurance bill. Later on, industry was involved in thematic work groups alongside supervisory staff to draft the microinsurance resolution passed at the end of 2011 and the subsequent microinsurance circulars issued in 2012.
- In **South Africa**, the approach has been for the policymaker and the supervisor to develop a draft framework, then to invite public consultations and written submissions on the proposals, before finalising the regulatory framework. Industry was then invited to participate in a number of work groups to move from regulatory proposals to drafted legislation.
- In **Ghana**, the supervisor developed a policy document in 2010 to set out initial proposals and serve as basis for deliberations in developing the regulatory framework. In developing the draft legislation stemming from the framework, it conducted a number of thematic industry forums to test and discuss the contents with the market.
- The **Philippines** adopted microinsurance regulations in 2006. Taking subsequent market experience on board, the supervisor and market stakeholders, under the leadership of the policymaker, reassessed the regulatory framework as part of the process to develop a *National Microinsurance Strategy*, including a microinsurance regulatory framework, which was published in 2010. The supervisor then issued additional *Microinsurance Circulars* to address various areas identified in the framework.

Linking microinsurance to broader reform processes. The development of a microinsurance regulatory framework must take into account any ongoing broader reform process in the insurance regulatory sphere, as well as broader financial sector reform agendas and the drivers of these reform processes. For example, the momentum for insurance regulatory reform may stem from an adopted financial inclusion policy stance by government, from government's drive to develop social protection mechanisms that include the informal sector, in having to align with updated international standards, or based on a poor rating in a recent FSAP[24] that prompts the development of a more rigorous regulatory framework. The legislative changes entailed by broader reforms can "open the door" for microinsurance-related amendments to be included. Where this is the case, however, caution should be taken that the microinsurance regulatory process does not become solely dependent on outside agendas. Where external consultants support regulatory strategies or drafting, their timely and frequent involvement in the stakeholder process is important so as to input microinsurance-specific learning into broader reforms.

3.2.3. What elements could a microinsurance framework cover?

The second question deriving from the decision to propose a dedicated regulatory dispensation for microinsurance is what focus areas to include in regulatory proposals. Elements to consider include: the formalisation of informal providers, creating a dedicated/tiered licence for microinsurance provision, introducing microinsurance as a new product class, accommodating new intermediary channels, improving the consumer protection framework, or a lighter-touch approach to regulation in selected operational areas such as simplification of the product registration process – to mention just a few potential examples. Some countries may decide to emphasise the prudential or institutional aspects of a microinsurance regime, others the market conduct side. Some implement a broad-ranging regime across all of the above. Table 1 summarises a number of approaches adopted thus far[25]:

Element of MI regulation	Country examples
Broadening the **institutional space** to allow entry of new types of players, e.g., cooperatives or mutuals	Philippines, Mozambique, South Africa (proposed).
Prudential elements, including:	
• Creating a **composite** microinsurance class of policies	India (but still separate underwriting), Philippines, Mozambique, South Africa (proposed), Cambodia (proposed).
• **Dedicated licence** for microinsurers	Philippines, Brazil, Taiwan (limited provisions), Mozambique, South Africa (proposed), Swaziland (proposed), Cambodia (proposed).
Market conduct elements, including:	
• **Simplicity & consumer protection** elements[26]	India, Philippines, Peru, Mexico, Thailand, the 14 West-African countries in the CIMA region, South Africa (proposed).
• Broadening the **intermediation space** for microinsurance	India, Philippines (introduced 2010), Peru, Mexico, Taiwan, China, Mozambique, Ghana, South Africa (proposed), Swaziland (proposed), Brazil, Cambodia (proposed), Tanzania (proposed), Zambia (proposed)

Table 1. Examples of elements of microinsurance regulation

[24] Financial Sector Assessment Programme

[25] Note that a number of other countries not covered here are working on microinsurance regulations, including Uganda, Nepal, Nigeria, Pakistan and Vietnam.

[26] e.g. recourse, claims turnaround, grace periods

The various action plan activities in the stakeholder process outlined at the beginning of Section 3.2 can play an important role in arriving at recommendations to the supervisor on what elements to include in the microinsurance regime.

3.2.4. Is it necessary to have a microinsurance definition?

The bulk of the market in most developing countries is relatively low-income and the microinsurance question is therefore a question of strengthening the retail insurance market as a whole towards a more inclusive insurance market. However, a common understanding of what microinsurance or inclusive insurance means in the domestic market, that is, what it is that the stakeholder process is trying to promote, is a prerequisite to any regulatory proposals stemming from the stakeholder process.

The point of departure is most often to adopt a shared *conceptual understanding* or definition of microinsurance. The definition adopted in the *IAIS-Microinsurance Network Joint Working Group Issues Paper* from 2007, namely: "insurance accessible to the low-income market", is commonly used. A conceptual definition can serve as a common working definition for insurers, supervisors and other stakeholders to understand what they are working towards, without the definition being "enforced" in any way. However, as soon as there is a need to tailor specific regulatory requirements to microinsurance or to monitor data and trends for microinsurance, a conceptual definition may no longer be sufficient to distinguish microinsurance from other classes of policies[27]. In such instances, there is a need to complement the conceptual definition by another means so as to provide the parameters for the application of the regulatory framework and to avoid regulatory arbitrage. A definition can also provide policy focus and can be linked to other national policies on social inclusion.

If the decision is taken to define microinsurance, subsequent considerations include whether the definition should be quantitative and/or qualitative, and whether it should delineate the target market or be product parameter-based. The guidance provided in Chapter 6 of the IAIS *Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets* should be the basis for determining the nature of such a definition.

3.2.5. What legal instrument to use?

There are a number of options for translating the chosen microinsurance regulatory framework into legally binding provisions. It is rare for a separate microinsurance law to be developed. Instead, several countries are opting to make amendments to the primary insurance law to insert reference to microinsurance and give the supervisor the power to regulate it through subordinate legislation. The details are then to be contained in subordinate legislation such as a decree, code or resolution, or a set of microinsurance regulations, directives or circulars. In other instances, sub-ordinate legislation or guidance may be sufficient without any amendment to legislation, as the powers granted to the supervisor by the insurance act provide enough flexibility to include microinsurance.

Table 2 provides an overview of selected country examples:

[27] This will typically be the case where the bar is raised in regulation in general (e.g. through moving to the latest solvency standards) to such an extent that it may create disproportionate compliance cost or burden for those seeking to serve the low-income market. It then becomes important to calibrate regulation in way that is proportionate to the nature, scale and complexity of insurance business in the market in order to accommodate market development. This can only be done based on a formal definition adopted in regulation.

Microinsurance act plus subordinate legislation	• **South Africa** (early proposal, later revised to subordinate legislation only) • **Zambia** (early proposal, later revised to subordinate legislation only) • **Brazil** previously tabled a bill to parliament, but later opted for subordinate legislation (see below)
Subordinate legislation only	• **India** (Regulations) • **Philippines** (various Memo-Circulars) • **Brazil:** Resolution, Circulars • **Peru:** Resolution • **Taiwan:** Directives • **China:** Rules • **Cambodia:** Draft sub-decree on MI • **Tanzania:** Regulations (proposed)
Legislative amendments plus subordinate legislation/guidance	• **Mozambique:** new section in Act, plus Regulations • **Ghana:** broad MI provisions in new Act, plus separate MI Regulations and Code • **Uganda** (proposed): amendments to insurance act to accommodate MI, with regulation to be done through subordinate legislation • **Nepal** (proposed): amendments to insurance act to accommodate MI, with regulation to be done through subordinate legislation

Table 2. Examples of legal instruments used for microinsurance to date

As a general norm, it is important to leave as much as possible of the details of the microinsurance regime to subordinate legislation, which is much more flexible than legislation that has to be passed through the legislative body. The IAIS *Application Paper* advises:

> “Regulation and supervision needs to permit innovative approaches while protecting policyholders. The primary law should be as broad and permissible as possible recognising, or not prohibiting, a wide range of business models, processes, potential market participants and service providers. Although the flexibility of the primary law may be implemented progressively through subsidiary regulations and guidance as well as supervisory policy, the overall flexibility in the primary law ensures that supervisors can deal with useful innovations as they become available without delay.”

3.2.6. Seeing the regulatory process through

Regulatory reforms can take several years from conception, through public consultation, to enactment. Seeing the regulatory process through by making inputs throughout therefore requires stamina on the part of the stakeholder group. Different inputs may be required at different stages, for example: regulatory proposals upfront, followed by technical assistance during the regulatory design stage and dissemination support during the consultation stage. In order to effectively see the process through, inputs to regulatory processes should be channelled through permanent institutions such as the supervisor or an industry body.

Furthermore, it is important to generate source documents to capture inputs and policy positions and ensure continuity in reasoning behind regulatory reforms, even if the persons on the stakeholder group change or institutional memory is lost in the supervisor itself due to staff turnover. This has for example been the case in South Africa, where the regulatory proposals published in 2011 were the outcome of a long engagement process that new policymaker and supervisory staff members were not party to. Hence the documentation of the original rationale and considerations behind the positions taken is proving important in the final drafting process.

3.3. Supervision

Strong supervision is essential to "see through" the work done at the policy and regulatory framework levels. Thus, a stakeholder action plan will also incorporate supervisory capacity building.

Prevailing conditions

Box 4 summarises the typical supervisory challenges identified across diagnostic studies completed to date and the corresponding recommendations:

Box 4. Typical supervisory challenges and diagnostic recommendations

Typical supervisory challenges:

- Legal challenges arise when the primary law does not confer sufficient powers on the supervisor. Hence, they do not have the legal tools at their disposal to affect change. This may for example be the case where the supervisor is not an autonomous body and therefore cannot generate its own levy funding or take independent management decisions.
- Capacity challenges occur when the supervisor has the necessary legal powers, but is not able to apply such powers due to skills, systems or other capacity constraints.
- Inadequate enforcement of existing insurance laws against illegal providers of insurance or unauthorised intermediaries.
- No effective consumer recourse system.
- Insufficient or inaccurate reporting by industry to the supervisor in general. Where microinsurance is concerned, the challenge is that in most instances the supervisory has not yet set or communicated defined indicators on which the industry should report.
- "Regulatory ivory towers" where different regulatory authorities (for example insurance, cooperatives, and health supervisors) regulate and supervise those within their jurisdictions based on different criteria, which can create an uneven playing field and allow regulatory arbitrage.

Corresponding recommendations:

- Build human capacity by, for example, obtaining political support to restructure or by hiring and training staff.
- Develop internal systems and/or improve supervisory systems.
- Critically assess the reporting system, develop reporting indicators and build capacity to effectively monitor and analyse market trends and respond accordingly.
- Coordinate with supervisory authorities in ancillary fields, for example: the cooperatives registrar.
- Set a transition period that allows entities to comply over a period of time, thus giving the supervisor time to grow its capacity in parallel.

Action plan implications

It is apparent from Box 4that the need for supervisory capacity building is a recurring theme. A stakeholder action plan can respond to this need by incorporating activities aimed at strengthening supervisory capacity. Specific activities should be chosen based on an in-depth assessment of the needs and priorities in the specific country. Importantly, supervisory capacity building is often not limited to microinsurance, but rather aimed at strengthening supervisory capacity in general.

For the stakeholder group, engaging supervisory staff should not be a one-way street. As long-standing technocrats, supervisory staff can bring interesting angles or valuable reality checks to the regulatory proposals generated by the stakeholder committee. Part of the design of the action plan should therefore be to build in feedback loops from supervisory staff at defined moments.

Examples of action plan activities to support supervisory capacity building include:

1. **Peer exchange among supervisors.** This can be achieved by supporting supervisors to participate in international forums and training such as the IAIS-Microinsurance Network Consultative Forum, the policy seminars, round tables and training events hosted by the *Initiative* and its partners, or other events. Exposure visits can also be organised for supervisory staff to visit supervisors in other jurisdictions that are engaging with the same questions or have already started to implement microinsurance measures. Lastly, the supervisor can be encouraged to form an internal working group on microinsurance.
2. **Topical training for supervisory staff.** Another important activity is to identify supervisory capacity gaps, for example, onsite supervision and to send operational staff for training, develop operational manuals, or conduct in-house training on those areas. This will support the development of effective supervisory systems. Supervisory staff can also be sent to microinsurance training courses in the region. A number of dedicated microinsurance/inclusive insurance training courses now exist for supervisory staff, including the IAIS-A2ii *Financial Inclusion Training Module* and the seminars presented by the Toronto Centre and the Financial Stability Institute. Alternatively, or in addition, an in-house training course on the fundamentals of microinsurance and what sets it apart from traditional insurance can be organised.
3. **Building technical skills**. Where actuarial and other technical skills gaps are concerned, supervisory capacity will in the long-term benefit from broader activities to build a pool of skills that the supervisor can draw on, for example:
   - Supporting the actuarial association in its efforts to build actuarial capacity in the country in general
   - Starting a mentorship programme for graduates in the insurance sphere
   - Placing an external actuary in the supervisor to provide in-house technical training
   - Sponsoring actuarial training for students and requiring them to do internships at the supervisory authority
   - Setting up topic-specific working groups led by the supervisor that draw in industry expertise to advise on specific technical areas.

4. **Practical exposure of supervisory staff to microinsurance business models**. Practical exposure can, for example, be generated by surveying products in the market, their features and distribution modes, and presenting the findings to supervisory staff to build an understanding of the realities of the microinsurance market. Furthermore, field visits can be organised to expose supervisory staff to the on the ground realities of microinsurance models, or to the inner workings of an insurance company more broadly.

5. **Assistance with the development of performance indicators**. Section 7 emphasises the importance of data monitoring in assessing, amongst others, client value and outlines considerations regarding potential key performance indicators to draw on. Data is core to supervisors' ability to design and implement a sound, effective and proportionate regulatory and supervisory approach. Reporting requirements and effective monitoring and analysis of the data received are important supervisory tools. These ensure consumer value and protection as well as the sustainability of products or providers. An inclusive regulatory and supervisory approach will not impose onerous reporting requirements on insurers.

   The development or adaptation of performance indicators relevant to the domestic context is an area where technical assistance to the supervisor can have particular value. Relevant stakeholder activities can include: organising training for supervisory staff on key performance indicators in order to monitor performance and consumer value in the microinsurance sphere. Furthermore, assistance can be provided in the development of reporting templates and the implementation of an off-site monitoring system that effectively collects such data.

6. **Strengthening supervisory monitoring systems**. Related to the previous activity, the action plan can support supervisory monitoring systems in general. Relevant activities can include: assisting the supervisor to identify gaps or inefficiencies in their reporting and analysis system, training on implementing IAIS *Insurance Core Principle 9 on Supervisory Review and Reporting* in a proportionate way, and providing technical assistance to build a reporting and supervisory system to improve offsite monitoring of performance and trends. In some cases, depending on funding availability, it can even entail support for the purchase of data monitoring software. Furthermore, supervisory staff can be coached in implementing the system and effectively using the results in their supervisory tasks.

How to ensure effective supervision-targeted activities? A number of lessons emerge from country experience, to date, with regard to supervisory implementation activities:

Tips for effective activities aimed at the supervisory level

1. **Start with a reality check**. The point of departure should always be an assessment of the current level of supervisory capacity, gaps and challenges. For example, some supervisors may not have an in-house actuary or legal expert. Others may not have enough staff members to enable regular on-site supervision, or may lack the appropriate supervisory manuals. The check should be done by an external specialist and/or in workshops with supervisory staff as a self-assessment exercise.

2. **Work with what you have**. The reality in most countries is that the supervisory capacity is constrained, with little scope for the actual number of staff or their skills set growing dramatically to deal with the new and additional demands that microinsurance is likely to

3. introduce. Therefore, any activities pursued must aim to make the most out of the capacity that is available, while over the longer term building capacity. Activities to leverage or extend supervisory capacity could, for example, include delegated supervision[28] or the setting up of an ombudsman funded by industry to ease the complaints handling burden on supervisory staff.
4. **Bring a variety of departments and operational staff on board**. The ongoing support for the microinsurance development process often rests with the commissioner or another key champion for microinsurance within the supervisory authority. It will typically be that person that is represented on the stakeholder group. Where this is the case, it may be that other department heads and operational staff do not fully understand the rationale for and supervisory implications of microinsurance. They should be introduced to the microinsurance topic early on in the stakeholder process and then be kept in the loop throughout the developments towards regulatory reforms. As they are the ones that would then need to implement such reforms, they need to be comfortable with how to effectively supervise microinsurance as part of their broader mandate – be it registration, compliance, on-site supervision, or any other area of responsibility that they may have. This could, for example, be achieved by forming a working group on microinsurance within the supervisory authority that spans various departments. Bringing a range of staff on board will also help to ensure continuity in the supervisory approach, should operational staff or senior management change.

In the sub-sections to follow, the focus shifts to the market-related activities of the action plan, namely those aimed at the demand-side, as well as, on the supply-side, those targeted at insurance providers and distribution channels, respectively.

4. Target market

Prevailing conditions

Diagnostic research suggests that low-income people are often exposed to financial shocks due to insurable risks. They cope with the impact of such shocks in a variety of ways: from relying on family and friends, to drawing down hard-earned savings, to incurring debt, or relying on informal insurance-type mechanisms. This would suggest a value proposition for formal insurance to consumers in the low-income market. Yet a number of demand-side challenges still stand in the way of an inclusive insurance, including: **low awareness** of insurance, **low, irregular incomes** of the target population, a **lack of trust** in insurance providers and/or **misperceptions** about insurance (see Box 5).

Box 5. Cross-cutting demand-side insights

Focus group discussions and demand-side survey data analysis conducted as part of access to insurance diagnostics render the following cross-cutting insights:

- The target market's socio-economic circumstances shape demand and imply that "business as usual" will not be feasible in order to meet their needs and achieve uptake. Most of the diagnostics find the respondents to have low, irregular incomes and limited education.

[28] For example: keeping insurers accountable for the actions of agents, or more effectively using an industry body to fulfil certain supervisory functions where a strong association exists

A substantial proportion of the target market resides in rural areas. If they are urbanised, they often make a living in the informal sector. However, urbanisation (e.g. Mongolia, China) and increasing bank account/payments penetration (e.g. Mongolia, Kenya, Swaziland, Brazil, Tanzania) may facilitate microinsurance uptake and distribution.

- The need for insurance is apparent:
  - Community safety nets may substitute for formal insurance in that people look to family and friends for support should an economic shock befall them. However, such networks may falter in times of economic difficulty, leaving people without protection and implying a need for insurance (e.g. Swaziland).
  - Awareness of risk exposure (especially life and health) as well as various coping mechanisms utilised imply a value proposition for insurance in most countries. Existing risk-pooling mechanisms at community level signal potential insurance demand (this was found in for example the Philippines, India, South Africa, Ethiopia, Kenya, Swaziland, and Tanzania). Likewise, growing voluntary take-up in a number of countries (e.g. Kenya, Brazil, South Africa, Colombia, Philippines, India, and Ethiopia) signals demand.
- However, several factors stand in the way of broad-based insurance uptake:
  - There is a general distrust of insurers as being "for the rich" or not paying claims. Though most respondents have not personally had a claims experience, word of mouth from others in the community has a powerful impact. Focus groups in, for example, Ethiopia showed how the word of mouth effect of tardy claims pay-out and even valid claim rejections were exacerbated by limited understanding of terms and conditions to undermine trust. In some countries specific negative experiences (for example with pre-need companies in the Philippines not being able to honour promises or recollections of the impact of hyperinflation in Brazil or Uganda) continue to negatively impact consumer trust.
  - Those respondents that do have insurance policies tend to be more positive about it than those who do not, especially if they had a good claims experience. This finding emerged strongly in for example the Brazilian focus groups, as well as in Tanzania.
  - Features of available product options are often perceived not to be appropriate to respondents' needs and not to be readily available at community level.
  - Perceptions of cost and affordability are not necessarily aligned to actual costs of available product options in the market. Yet perceptions drive behaviour.
  - In some instances (e.g. Tanzania and Peru), there was confusion between public insurance - such as national health insurance - and private insurance schemes. Bad impressions of public insurance are then transferred to private insurers.
  - Knowledge of consumer recourse options is generally limited.

Action plan implications

There is general consensus that it is worthwhile to pursue demand-side activities as part of a stakeholder action plan, even if these may be the activities where it is hardest to show impact or attribute success, especially over the short-term. Potential action plan activities with a demand-side slant can be grouped into three categories:

1. Those aimed at building trust by improving the **market conduct** of insurers with regard to timely claims pay-out, as well as by informing consumers of product features, terms, conditions, and recourse options.
2. Those aimed directly at the **consumer**, i.e. any financial literacy/consumer education-related strategies and activities.

3. Those aimed at **generating and using further demand-side insights** to inform the market and regulatory response.

In addition, there can be several activities aimed at *tailoring products and channels to customer needs* so as to increase the likelihood of take-up. These are considered as part of the product development activities outlined in Section 5.3 and the distribution activities discussed in Section 6.

Below, each category and the range of activities that it can comprise are considered in turn.

4.1. Market conduct initiatives

Several action plan activities can be conceived to **improve disclosure** of the product offering, the terms and conditions and the recourse options. Examples include: a *Code of Conduct* developed as part of the in-country process to which suppliers can voluntarily subscribe, or the development of a shared and simplified glossary of terms to be applied in microinsurance dealings. Given the importance of trust in the demand-side findings, and the role that claims experience plays in building or undermining trust, **activities to improve claims pay-out** can have particular impact – arguably more so than the activities aimed at educating consumers discussed in Section 4.2. Examples include:

- A number of countries have instituted regulatory requirements that enforce claims payments within a particular period - sometimes with heavy penalties such as in Peru. Claims turnaround time can also be part of a voluntary industry code of conduct.
- Insurers can agree to institute special claims processing channels for microinsurance. For example, China Life in Shanxi instituted a special "green channel" for dealing with microinsurance claims.
- Insurers can be encouraged to generate publicity upon claims payments. For example, the *Tigo model* in Ghana actively advertises instances of successful claim payments.

4.2. Consumer education activities

Consumer education aims to promote awareness and understanding of insurance and to improve the ability of consumers to effectively use insurance services. It encompasses consumers' understanding of insurance products and concepts, the risks that they face, as well as of their own rights and obligations in engaging with insurance. It also covers the skills needed to effectively use insurance services, including filing claims and making use of recourse options. As the discussion above indicates, financial behaviour is impacted not only by objective factors, but also by perceptions and trust. To be effective, insurance consumer education should therefore overcome negative perceptions and engender trust in insurance. Evidence of the impact of insurance education is still limited and no "quick-win" recipes exist.

The rest of this discussion sets out examples of activities pursued to date and outlines documented considerations and lessons in the implementation of such activities. *As this is a field where direct experience under the Initiative umbrella has been very limited, this document does not purport to provide concrete tools or lessons on insurance education.*

4.2.1. Dimensions of insurance consumer education

When deciding on which activities to incorporate in an in-country microinsurance development process and in what way, it is important to take into account the various dimensions according to which insurance consumer education can be classified:

Content

The first dimension is what content areas are covered. Here, insurance consumer education is set apart from financial education more broadly. It focuses specifically on the target market's risk experience and coping mechanisms, as well as their awareness, understanding, skills and attitudes towards insurance. Consumer education can either be product-specific or generic, or a combination of both. For example, in Ethiopia, financial education with regard to microinsurance covers the purpose of insurance, the process of acquiring insurance, a decision matrix for risk exposures, as well as education about the value proposition of specific products such as life, credit life, accident and disability, maternity and health, asset insurance or agricultural insurance.

Part of the stakeholder group's task is to determine what combination generic or product-specific education will be most appropriate[29]. For example: an impact evaluation of the South African Insurance Association consumer education programme found that it would be sensible to concentrate on education specific to asset insurance, as there is a particular gap with regard to financial literacy and capability in this area.

Audience

Another key differentiator between consumer education initiatives is the target audience, for example: children, the youth, employees at the workplace, those active in a specific economic sector such as farming, or members of a specific community, to mention just a few. The target audience can also be set by income level or socio-economic class. An impact evaluation of the SAIA consumer education programme found that the target market was initially too narrowly defined, thereby cutting out higher-income earners that are still broadly low-income, but who would have assets warranting insurance.

The audience can furthermore either be *potential clients* (in order to introduce them to the concept of insurance) or *existing customers* (to enable them to effectively use insurance and become ambassadors for insurance in their community). Relevant initiatives with regard to existing consumers can include coordinated efforts to set up a call centre for consumer queries or joint efforts across industry to standardise/simplify terminology used in insurance policy documents.

Microinsurance consumer education strategies, activities and channels have to align with what is relevant and applicable to the local context, based on an assessment of the particular target market needs, socio-economic context and value chain features in that

[29] Where product-specific consumer education is concerned, an emerging lesson is to make effective use of compulsory products as a consumer education opportunity. Many low-income people may have a compulsory credit life policy without even knowing it; or, if they know about it, they often see it as a precondition to the loan rather than as an insurance product that can add value to them. However, if properly explained, compulsory insurance provides an opportunity to introduce those who have it to the concept of insurance and illustrate its value to them in a way that may encourage them to also take up other voluntary products in future. A particular opportunity to do so may be if voluntary riders are added to the compulsory product.

country or for that particular target group. Therefore, the design of consumer education strategies and activities should start with some form of market research on what is relevant, applicable and likely to yield good results[30].

Implementing agencies and coordination

Insurance consumer education can be delivered by insurers themselves, or it can be implemented by other organisations such as distribution channels or training institutions/dedicated consumer education implementation agencies. The stakeholder group can directly initiate and coordinate financial education activities in partnership with government or other entities. Alternatively, the stakeholder action plan can link to a broader strategy or activity set where either the industry association or government plays a leading role, sometimes with donor support:

Industry-association-driven activities. Insurance consumer education initiatives are often coordinated at the industry association level. This provides an opportunity to test different consumer education methods and the relative effectiveness of each. A good example is the consumer education initiative undertaken by the Brazilian federation of insurance associations, CNSeg, in Santa Marta, a community or "favela" in Rio de Janeiro in 2011 (see Box 6):

Box 6. Brazilian case study: the CNSeg Santa Marta project[31]

CNSeg, the association of insurance organisations in Brazil, aims to build an informed client base in the low-income community and develop a methodology for the sector to disseminate information about insurance.

With the cooperation of 15 insurance companies in the area, CNSeg conducted a pilot consumer education project in Santa Marta in 2010. The aim of the project was to test the effectiveness of different communication channels and tools. Four different tools were devised – a radio soap opera, a short film, street theatre and printed graphic material. Additionally, a Samba contest was organised within the community and later an insurance information kiosk was added.

The main lessons emerging from the project were:

1. It is crucial to collaborate with local partners and develop ownership and buy-in within the community.
2. Insurers should be committed to provide appropriate products, available for distribution at the time of the communication campaign. Only when there is a basket of different products to market can information dissemination successfully be translated into take-up.

In Colombia, the insurance industry association, FASECOLDA,[32] led a centralised consumer education strategy, which was then eventually institutionalised by regulation that made education obligatory for industry members. Thus, government later on adopted what started out as a voluntary industry strategy developed to centralise efforts and investments across insurers and to ensure that all education is of a particular standard.

[30] For example: in South Africa the Financial Services Board conducted qualitative focus group discussions to determine the specific needs and appropriate channels for microinsurance education.
[31] Microinsurance Innovation Facility, 2010. Learning Journey: Changing the Perception of Microinsurance. CNSeg, Brazilian Insurance Confederation and International Labour Organisation. Available at: (accessed August 2012).
[32] For more information on FASECOLDA, see Microinsurance Innovation Facility, 2010. Learning Journey: Changing the Perception of Microinsurance. CNSeg, Brazilian Insurance Confederation and International Labour Organisation. Available at: http://www.microinsurancefacility.org/en/learning-journey/risks-and-insurance-literacy-0 (accessed August 2012).

Another example of an industry association initiative is the consumer education programme coordinated by the South African Insurance Association (SAIA – refer to Box 7).

Box 7. South African case study: the SAIA consumer education programme[33]

SAIA is a professional industry organisation representing short-term insurers. It offers various financial education interventions intended to increase consumer knowledge about insurance, as well as their rights and responsibilities when buying products from accredited financial services providers. Since 2005, SAIA has invested heavily in consumer education activities including radio campaigns and workshops, drawing on compulsory contributions from industry members under the South African Financial Sector Charter. Channel-related lessons learned include that outsourcing to professional service providers is the most viable and efficient method for the successful implementation of financial education programmes[34].

Activities linking into broader financial literacy campaigns or strategies. In some instances, insurance consumer education activities are not only coordinated at the industry level, but are integrated into a coordinated government drive for financial literacy. Such a coordinated government programme can span the whole financial sector, for example the Ghana Consumer Education and Protection of Financial Literacy Campaign launched in 2007. Alternatively, it can be dedicated to microinsurance. Here the *Roadmap for Financial Literacy for Microinsurance* that forms part of the broader coordinated national strategy on microinsurance in the Philippines is an appropriate example (see Box 8):

Box 8. Taking microinsurance education to the road in the Philippines[35]

The National Strategy and the Regulatory Framework for Microinsurance adopted in the Philippines in early 2010 emphasise financial literacy as a key pillar. It recognised that a lack of awareness and generally low financial literacy among the poor contribute to low insurance uptake and that this is a challenge that is best tackled collectively.

In 2011, the German International Cooperation Microinsurance Innovations Program for Social Security (GIZ-MIPSS), with support from the Asian Development Bank-Japan Fund for Poverty Reduction, partnered with the government of the Philippines to initiate a Roadmap for Financial Literacy for Microinsurance. Insurance associations and providers also joined in this collaboration. *Importantly, the roadmap not only focuses on consumers, but also on educating legislators, supervisors, national agencies, local government units, insurance providers, intermediaries, support institutions, donors and other development partners on the key advocacy messages for microinsurance*.

The major vehicle used to date has been the nationwide Financial Literacy for Microinsurance Roadshow, which consists of a series of four-day capacity-building events in 16 regions across the country. The first three days are framed as training on microinsurance advocacy, while the last day is an advocacy seminar open to the public.

Initial lessons confirm that altering perceptions and behaviour is no easy task, even with the concerted effort of both the public and private sectors. It has been challenging to secure the interest and commitment of various parties, particularly local government representatives, to participate. It has also been hard to find the balance between “microinsurance advocacy” and marketing. One of the main goals of the roadshow is to create a critical mass of microinsurance advocates. There is, however, no guarantee that the knowledge acquired by the participants will be replicated after the event.

---

[33] South African Insurance Association (SAIA). Consumer Education Initiative Report. Available at: http://www.saia.co.za/media-release/2009/11/25/saia-fsc-consumer-education-initiative-reports/ (accessed August 2012).

[34] Smith, A. et al. *The South African Insurance Association (SAIA) insurance education programme: 2005 -2009*. Cenfri.

[35] *Source*: Microinsurance Network “Challenges and topics” series. www.microinsurancenetwork.org/-challenge26.php?goback=%2Egde_2473058_member_108400447

Channels: Consumer education methods or channels can include mass media, classroom-style workshops, sitcoms, posters and other print material or street theatre. Often, the target audience determines what the most appropriate method(s) are.

Box 9. Examples of consumer education channels

- *An industry open day*. One method of consumer education is to organise a dedicated day(s) where the supervisor and insurers interact with the public and promote the concept of insurance. In Swaziland, for example, the supervisor organises an annual insurance open day or "trade fair" where they hire a popular musician to give a concert in a big stadium with free entry for the public. Insurers then have stalls where they display banners and distribute brochures and interact with those attending.
- *Print media campaigns,* for example through distribution of microinsurance-related posters, comics or brochures. This is a popular form of mass media used by most countries as part of a microinsurance consumer education strategy. In Kenya, Malawi, Ghana, Tanzania, Brazil and the Philippines, for example, illustrations with simple language descriptions are distributed to convey basic financial literacy messages or illustrate insurance as a possible solution to country-specific problems.[36]
- *Radio broadcasts and call-in/quiz shows*. Radio is a popular channel to raise awareness and increase knowledge about insurance. It has a defined audience, broadcasts can be in people's home language and can be interactive, for example when people participate in quiz shows or phone in to ask questions. In Kenya, for example, the Insurance Consumer Education programme[37] (ICE-K) used radio as the main medium of communication.[38] A study into the effectiveness of the programme found that radio is an effective method to encourage behavioural change, but that listeners may require repeated, more prolonged exposure to change their behaviour. The South African Insurance Association (SAIA) also has an ongoing radio financial education campaign.
- *TV/radio soap opera*. TV shows are an increasingly popular, however expensive, means for showing the reality of insurance. The federation of insurance associations in Brazil, CNSeg, (see case study in Box 6), as well as the consumer education campaign in Ghana use narratives in the format of a soap opera, transmitted on national radio, to which people can relate so as to familiarise them with the typical situations in which insurance could be useful and to illustrate how it works. In India, organisations such as the Microinsurance Academy produce "Bollywood-style" movies that bring across a microinsurance education message.
- *Road shows.* Road shows are a lively mode of bringing the features, opportunities and pitfalls of financial services to the homes of low-income consumers. In Ghana insurance education road shows use giant puppets, public theatre and musically-dramatised messages combined with posters and mass media to transmit messages around saving and borrowing.
- *A multi-channel campaign, sometimes focusing on a particular week or month*. Each year, the Philippines have a "National Microinsurance Month" supported by government during which various initiatives are rolled out to promote microinsurance awareness. In Zambia, the regulatory authority and industry launched a joint "Insurance week" in 2013 covering various

[36] Mftransparency.org, 2010. *Consumer Protection, Consumer Education and Financial Literacy.*
[37]Tower, C. & Guinness, E., 2011. A friend indeed: Evaluation of an Insurance Education Radio Campaign in Kenya. Available at: http://www.microfinancegateway.org/gm/document-1.9.56834/Impact-Evaluation-of-ICE-K-Project2.pdf (accessed August, 2012)
[38].Mftransparency.org, 2010. *Consumer Protection, Consumer Education and Financial Literacy.*

events and intensive publicity to promote microinsurance. The Colombian industry association, FASECOLDA[39], also uses a multi-channel approach, as do CARE India in partnership with Bajaj-Allianz in the Indian state of Tamil Nadu[40], the Brazilian federation of insurance associations, CNSeg, and the South African Insurance Association, to mention just a few examples.

- *Dedicated workshops (ranging in length from a few hours to a day or longer)*. Classroom training for consumers entails more in-depth engagement with a smaller group of consumers. Freedom from Hunger, a not-for-profit organisation, used Technical Learning Conversations (TLCs) as a forum for health microinsurance education in Ghana. TLCs are 30-minute group discussions using stories, role-plays and visual aids to explore the costs and risks of illness, how health insurance works, what the insurance covers, and how to utilize insurance to access covered healthcare services. Likewise, the South African Insurance Association (SAIA) has used workshops as part of its financial education campaign. In Fiji, the Pacific Financial Inclusion Programme uses an adaptation of a traditional village get-together for a game to show how insurance works.

- *Incorporation in school and university programmes*. In Ghana the GIZ Responsible Finance project in collaboration with the Ghana Education Services have modified the educational curricula of junior high schools to include financial literacy with special emphasis on financial management. Note that, though the content includes insurance, this method is generally not dedicated to insurance.

- *Sector-specific initiatives.* Some programmes target specific groups in the real economy and tailor the message to their economic and social realities. The financial education initiatives pursued as part of the microinsurance action plan in Ethiopia, for example, focus on workers unions, women NGOs and various types of cooperatives, respectively. In Zambia, there are plans under the national financial education strategy to target, amongst others, the farming community and micro and small businesses in the informal sector, reaching them through microfinance institutions, associations and other groupings.

- *Leveraging communication technology*. The potential of mobile communication such as short text messages as a consumer communication and education tool is increasingly being recognised. While this is not necessarily a stand-alone channel, it can be powerful in reinforcing messages delivered through other channels, or providing updates or reminders to consumers.

In practice, consumer education and financial capability strategies often involve a combination of the above methods, designed to target a variety of consumers and delivered through various means. Different channels serve different purposes. Thus the stakeholder group or committee should be strategic regarding what channels to use for what purpose, at what stage of the process, and for what target audience. For example: radio may work best for small-scale farmers in rural areas, whilst TV might be a better option for the urban younger community. Or a buzz can be created through mass media, but other means may then be needed to cement the message. By determining what the key teachable moments are in the life cycle – for example: maternity, collection of social pay-outs, somebody who's just had a death in the family, farmers just after harvest season – appropriate channels can be identified for reaching different target audiences at a time when they are most receptive, and the message can be packaged to suit that moment.

---

[39] Read more about the FASECOLDA project's "learning journey" at http://www.microinsurancefacility.org/en/learning-journey/risks-and-insurance-literacy-0.

[40] See, for example: http://www.ilo.org/public/english/employment/mifacility/download/presentations/transcript_dalal_en.pdf

Funding

Consumer education is an expensive endeavour. Funding is therefore a key consideration when devising a consumer education action plan. The generic funding options are[41]:

- Public funding, be it through local government agencies, the Central Bank, Ministry of Finance or Insurance Supervisor.
- A pooled levy imposed on private insurers (as is for example the case under the *South African Financial Sector Charter*).
- Individual private funding, be it through an industry association or by single insurers.
- Donor funding – be it bilateral, multilateral or through private foundations.

4.2.2. Action plan implications

In deciding which consumer education-related activities to implement and what dimensions to apply, stakeholder groups should strategically plan and position consumer education activities relative to other action plan activity streams aimed at the supply-side and regulatory spheres. Decide whether it is best in the particular context to pursue demand-side activities upfront in order to "prepare" the market and tap further consumer insights to feed into supply-side and regulatory activities, or to rather conduct demand-side activities later on in the process, once the regulatory framework and market conditions are in place, to facilitate uptake among customers[42].The case studies above suggest, for example, that specific targeted education campaigns work best when they follow product availability.

It is difficult to prove the impact of consumer education campaigns on consumer behaviour. The gains in terms of higher uptake may be over the medium to longer term, rather than immediate. This topic is discussed further in Section 7 on Monitoring and Evaluation.

4.3. Generating further demand-side insights

The third demand-relevant activity is to commission further research or analysis to better understand consumer needs, behaviour and perceptions in order to inform the rest of the action plan activities.

Diagnostic studies typically incorporate a component aimed at unpacking demand-side realities and needs, as well as the target market's understanding and perceptions of insurance. The diagnostic will draw on quantitative demand-side survey findings as well as qualitative market research findings such as focus group discussions. As the diagnostic needs to cover a lot of ground, it usually cannot go into much depth in terms of consumer insights. Part of the strategy process will therefore be to identify particular areas where further

[41]Messy, F. & Monticone C., 2012. The status of financial education in Africa, OECD Working Papers on Finance, Insurance and Private Pensions, No. 25, OECD Publishing. Bilateral and multilateral agencies that fund consumer education include USAID, DFID, GIZ, the Russian/World Bank/OECD Financial Literacy and Education Trust Fund, UNICEF and the EU. An important funder of consumer education activities in Africa is the Finance Education Fund (FEF) launched in 2008 by the UK Department for International Development (DFID). It awards grants to consumer education initiatives by a variety of different institutions, with the requirement that the project must have an evaluation component.

[42] This has for example been the case in Zambia, where the Technical Advisory Group (TAG) has chosen to frontload its implementation with supply-side and regulatory activities, with financial literacy to follow one the product suite is in place. The risk of such an approach is that you lose valuable time that could have been used to lay the groundwork in terms of basic or generic financial literacy knowledge and skills among the target population.

demand-side insights will add value to supply-side and regulatory activities. Potential activities include:

- Commission in-depth analysis of demand-side survey data to render insights on consumer segments and profiles, as well as with regard to the demand for specific insurance products. Such analysis can also be used to build an understanding of specific demand-side barriers to insurance uptake.

- Commission targeted qualitative research. This will be required when you want to explore specific products or market segments, especially to inform supply-side activities or policy choices. For example: conducting further market research among smallholder farmers when deciding whether and how to target agricultural insurance, or zooming in specifically on health insurance needs among urban dwellers in order to inform health insurance-related strategic activities. Where possible, invite industry and regulatory representatives to observe focus group discussions so as to gain first-hand insights into consumer needs, preferences and perceptions.

- The consumer education activities as discussed in Section 4.1 can also be used as an opportunity to learn more about the market and in what ways insurers need to adapt their products, channels and approaches to make inroads in microinsurance.

5. Insurance providers

Another important activity stream focuses on the supply of insurance. Generally, there are four main issues on the supply-side that hamper microinsurance market development:

1. **Business case**: insurers do not think that they can make money from microinsurance.
2. **Capacity**: insurers do not know how to go about microinsurance, or do not have the requisite skills, staff orientation and systems.
3. **Product development**: insurers do not have the right products
4. **Distribution**: insurers do not know how to get it to market

The rest of this section considers action plan implications of three of these supply-side issues in more detail, namely *business case*, *capacity* and *product development*. Section 6 is dedicated to distribution.

5.1. Business case

Prevailing conditions

Typically, diagnostics show that commercial players compete for the same traditional target market, with little emphasis yet on the large unserved, often informally employed, market[43]. Some insurers remain reluctant to invest in microinsurance due to limited understanding and buy-in to microinsurance at the board or senior management level. This, in turn, is due to the fact that the board regards the expected return over the short-term as too low to warrant the risk of entering the microinsurance market or that microinsurance simply does

[43]This was highlighted in the diagnostics for Zambia, Swaziland, Ethiopia, India, the Philippines, Nigeria, Mozambique and Tanzania.

not “win” vis-à-vis more immediate opportunities in traditional market segments. Others, on the other hand, are starting to see microinsurance as a rich potential opportunity with a large volume to tap into[44].

Incentives to enter the low income market may be shaped by the current market structure in the country, new entrants that “shake up” the status quo, or foreign entrants that introduce models from abroad. Where competition for the existing insurance market becomes fierce, for example due to new entry, expanding into the personal lines business down the income spectrum may become an imperative for those wishing to gain market position. The long-term growth of microinsurance supply will depend on scale and viability.

In line with this situation analysis, business-case related diagnostic recommendations typically focus on the need to demonstrate the microinsurance market potential, by generating or sharing quantitative and qualitative evidence in this regard, and to engage senior insurance company representatives, for example by inviting them to seminars, launch events or workshops, to change the “wait and see” approach.

Action plan implications

Various activities can be pursued to convince insurers of the business case for microinsurance, including:

- Conducting a study to **assess the buy-in to microinsurance at board and senior management level** among insurers and using the findings to identify strategic actions needed to create the necessary buy-in. This has been used to good effect in Zambia.
- **Conducting market research on microinsurance potential** where convincing evidence of the potential for microinsurance does not yet exist in the particular country. This can include conducting data analysis to segment the market and understand insurance needs.
- **Using the demonstration effect:** workshops or meetings with senior management to share existing research that document the business case or market potential for microinsurance[45] and present case studies from other countries to trigger interest, build understanding of microinsurance and generate buy-in. This approach has been followed in, for example, Zambia, Ghana and the Philippines.

  Part of the approach can be to set up a microinsurance forum or blogspot for discussion/debate and posting developments and news, so as to encourage sharing and build enthusiasm for the topic. In the Philippines, for example, there is a regularly updated microinsurance blogspot where the latest news with regard to product

[44] E.g. Colombia, Brazil
[45] This is a topic that has attracted increasing attention in recent years and stakeholder can draw on published research. See, for example:

- Angove, J. & Tande, N., 2012. Is microinsurance a profitable business for insurance companies? In: C. Churchill & M Matul (eds), 2012. Protecting the Poor: A Microinsurance Compendium, Volume II. Geneva: ILO
- A recent study by the Microinsurance Network (Coydon & Molitor, 2011) examined the involvement of the top insurance companies in the world according to the Forbes "The Global 2000 Insurance" list, in microinsurance to understand their incentives and long-term perspectives. Based on the initial desk study, it can be estimated that at least 33 of the 55 targeted companies are involved in microinsurance activities. The fact that so many of the largest insurers in the world are engaging in microinsurance indicates that more and more companies are finding a compelling business case for microinsurance. Available at: http://www.microinsurancenetwork.org/publication/fichier/MiN_Commercial_insurers_study_2011.pdf

launches, events or success cases, as well as input documents and regulatory circulars are posted.

- **Risk sharing:** for example through a grant or seed fund to trigger investment decisions. In some instances, the stakeholder process can be frustrated in that decisions to invest in microinsurance are not made, even after various workshops to share international case studies and convince management of the value proposition of microinsurance. This has for example been the case in Zambia and Ghana, where market response has been sluggish. In such cases, a potential way to trigger investment decisions is to tip the risk-return balance in favour of microinsurance by providing a grant for innovative models. Such grants can be awarded on a competitive basis so that a few insurers are incentivised to develop product ideas that they may end up seeing through, even if just one or two end up receiving a grant. This is the classic "challenge fund" principle that underlies the ILO Microinsurance Innovation Facility and, funding permitting, can also be replicated at the individual country level[46].

  Part of this approach can be to support pilots that test new products or distribution models.

- **Public involvement.** Another tool to trigger investment is public provision or leveraging of private involvement, most notably through a Public Private Partnership (PPP)[47]. It entails government or a development partner proactively recruiting the insurance industry, often a local insurer as well as an international reinsurer, and distribution partners to work together to launch a microinsurance scheme. PPPs are typically used for weather index insurance, health or other models requiring substantial upfront investment, as well as where government wants to leverage the private sector to achieve social protection goals. PPPs are highlighted as one of the key drivers of the dramatic growth in microinsurance reach across the globe in recent years alongside other aspects of government involvement[48]. Such instances of public involvement are particularly prevalent in Asia (Churchill & McCord, 2012[49]). Generally, however, PPPs are resource intensive and may be complex to set up. While one of the suite of options, it may therefore not be an immediate action item identified for the purpose of an action plan.

  Other public actions to support the microinsurance business case may include regulatory changes to trigger or enable private provision (refer to Section 3.2 for an overview of action plan activities pertaining to regulation) or the creation of market infrastructure or shared/public goods such as actuarial data to change the cost equation for insurers.

Stakeholder groups wanting to build the microinsurance business case can take the following considerations into account:

---

[46] For example, Zambia recently launched a small local "Microinsurance Acceleration Facility" with funding from FinMark Trust, the ILO and UNCDF.
[47] For an overview of PPPs in microinsurance, see: Gamm, R., 2011. *Public Private Partnerships in Microinsurance. Microinsurance Network Discussion Paper #001*. Available at: http://www.microinsurancenetwork.org/publication/fichier/MIN_PPP_discussion_paper.pdf?PHPSESSID=3b707904b54115f4b46404630800a2e5
[48] Such as subsidies, mandates or targets for private sector insurers to entice them to reach under-served markets or the involvement of public-sector insurers in the low-income end of the market. The latter is an interesting phenomenon found especially in China and India: publicly owned insurers are used to create a demonstration effect for other market players, or are large drivers of growth in their own right.
[49] Churchill, C. & McCord, MJ., 2012. Current trends in microinsurance. In: C. Churchill & M. Matul (eds), 2012. Protecting the Poor: A Microinsurance Compendium, Volume II. Geneva: ILO: 8-39

Tips for effectively building the microinsurance business case

1. **In it for the long run.** It is important that providers understand that microinsurance is unlikely to be sustainable if it is just pursued for quick gains. Profitability may not set in immediately and there may be some hard lessons learnt on product features and partnership management in the process (partnering is discussed in more detail in Section 6).
2. **Recognise that microinsurance requires a different business model**. The likely absence of immediate gains does not mean that microinsurance should be a corporate social responsibility activity not aimed at generating a profit – it just requires a different mode of operation and high levels of efficiency. Doing microinsurance successfully requires a different mind-set from traditional insurance. Successful provision of microinsurance is often the result of separating the microinsurance business into a separate business division or even an entirely separate company.
3. **Be realistic.** In implementing activities to convince insurers of the business case for microinsurance, it is important not to create the wrong expectation, but to be upfront about the potential challenges. For example, in inviting insurers from other countries to present their microinsurance case studies, it is important to also ask them about the hard lessons learned, not just to paint a rosy picture where in fact they may have burned their fingers first, before getting it right. It will also be important to engage with existing sources documenting lessons from microinsurance initiatives and how they are overcoming the challenges faced[50].
4. **Use the supervisor as champion**. Though the insurance supervisor should never favour one business model over another, support the actions of a particular insurer or directly stimulate the supply-side through incentives other than a facilitative regulatory framework, there could be an important role for the supervisor in motivating industry to respond to the microinsurance challenge in an appropriate way. Activities where the supervisor can take the lead in soliciting a supply-side response could include developing IT standards, collating industry data and publishing trends in order to stimulate interest and competition, or efforts to support the professionalisation and modernisation of insurance sector infrastructure – as has for example been the case in Ethiopia. Their involvement can also be more tacit or at the level of moral suasion. In Zambia, for example, the supervisor regularly officiates at launches, opens workshops, and through its active partnership in the stakeholder process challenges industry to respond. In another example, the National Insurance Commission in Ghana houses the Ghana insurance college aimed at strengthening the skills set in the industry and hosts dialogue meetings to help insurer staff to meet professional standards. The supervisor can also be a hub for technology, e.g. by organising a technology fair.
5. **Be careful when picking winners**. When implementing supply-side activities, the stakeholder working group is faced with the question of whether to support industry in general, or to pick winners to a create demonstration effect and thereby trigger a response from the rest of the market. In some instances where the market response is sluggish despite various generic industry-wide activities, the latter approach – namely identifying and creating champions and then encouraging effective replication across industry – may be quite an important strategy. However, any attempt to pick winners in this way should be approached in a tactical and cautious way, as the risk is that, in so doing, the stakeholder group will undermine its credibility. If the decision is taken to

[50] Here a good source is the "learning journeys" captured by the ILO Microinsurance Innovation Facility for each of its innovation grantees. See: http://www.microinsurancefacility.org/knowledge-center/learning-journeys.

support particular players, it must be through a transparent, competitive process, such as a competitive grant fund with clear application criteria and external proposal evaluators. Furthermore, while the supervisor can be involved in a number of generic supply-side activities, it is not advisable for the supervisor to be involved in any initiative that supports a particular market player.

5.2. Capacity

Supply-side capacity-building is an important activity stream in a stakeholder process. It can be aimed at commercial insurers as yet unfamiliar with microinsurance, as well as informal entities or non-insurers becoming active in the microinsurance sphere. It can also be an important activity for current and potential distribution partners (discussed in Section 6).

Prevailing conditions

Capacity constraints are not limited to microinsurance. Several diagnostics point towards human resources constraints in the insurance sector at large[51].Typically, staffing is insufficient or there are **limited technical skills** among operational staff[52]. Insurers' task is further challenged by a **lack of data** such as mortality data or climate data. A lack of claims experience may also make pricing difficult. Many insurers' **existing IT systems** are ill-suited to microinsurance innovation – indeed, many may still use paper-based systems that do not allow the administrative efficiency needed to operate at scale – and a **culture of innovation** is often absent altogether among insurers comfortable in their traditional market segments. In contrast, in some countries microinsurance is emerging as an "innovation incubator" for the insurance sector at large in terms of how to reach scale, improve efficiency and effectively employ new technologies[53].

Most diagnostics recommend that insurance capacity be strengthened, for example through training, but do not provide much detail on what such capacity building should entail.

Action plan implications

Various activities can be pursued to build capacity among insurance providers, including:

- **Supplier capacity assessment**. The diagnostic study will go some way to highlight capacity constraints or industry challenges relating to key performance indicators. However, it may be good to start off the action plan by conducting a more detailed, insurer-by-insurer as well as industry-wide, capacity assessment and then to design the rest of the supply-side activities to speak to the gaps identified. Various methodologies can be used for such a capacity assessment exercise. As an example, Box 10 outlines the approach followed in Zambia.

[51]E.g. Mozambique, Zambia, Ethiopia, Tanzania

[52]E.g. as identified in Zambia, Ethiopia, Mongolia, Uganda, Mozambique, Tanzania.

[53] Here Brazil, Kenya and South Africa are examples. However, in countries where there is heavy donor or government involvement in microinsurance, insurers may have limited incentive for innovation and efficiency gains. This was for example identified as a challenge in the Mongolia diagnostic. Thus, donor involvement can be a double-edged sword.

Box 10. Supplier capacity assessment exercise: Zambian case study

In 2010, the microinsurance stakeholder group (called the Technical Advisory Group or TAG) included a supplier capacity assessment exercise in its work plan and commissioned the coordinator and an additional consultant to conceptualise and conduct the analysis.

The objectives of the study were, at an industry level:

- To assess the capacity gaps of insurance providers interested in engaging in microinsurance provision in Zambia so as to inform the group's capacity building plans.
- To assess the training needs of insurance company management staff in the essential aspects of microinsurance product development.

In addition, at a company level, the purpose of the study was to carry out technical diagnostic assessments on individual insurance providers to highlight capacity barriers that may impede prospects for successful development and provision of microinsurance in Zambia in order to inform company-specific microinsurance strategies.

The consultants developed a standard methodology consisting of a structured questionnaire covering five assessment categories:

1. Corporate buy-in and interest
2. Product relevancy
3. Marketing and sales strategy for low-income groups
4. Claims management and customer care
5. Organisational capacity

This questionnaire formed the basis for in-depth interviews with staff at the executive and operational levels in each insurance company. Based on the answers, insurers were then scored on a pre-defined index and industry-wide averages were calculated. This led to the compilation of an individual diagnostic report for each insurer, on a confidential basis, outlining their main capacity gaps. These reports were used as a basis for discussion with each insurer on a one-on-one basis on potential ways to overcome gaps and develop microinsurance plans.

In parallel, an industry-wide trends and summary report was prepared that highlighted industry average scores for general, life and health insurers, respectively, but without disclosing any company-specific information. The overarching results were used to guide capacity building interventions in key operational and functional areas, namely: market research, product design, product testing, product marketing and product evaluation. Amongst others, they have led to targeted innovation workshops and training courses on the fundamentals of microinsurance, as well as on business planning and partnership management for microinsurance implemented since then. To date, at least one insurer has decided to venture into microinsurance as a direct result of the individual assessment.

- **Operational training.** One of the outcomes of a capacity assessment may be that, while senior management have been exposed to and understand microinsurance, operational staff, for example in the product development, marketing and claims administration teams, may have little understanding of microinsurance and how it differs from "business as usual". An important potential supply-side activity is, therefore, to conduct workshops for operational staff to introduce them to the topic, expose them to case studies of business models followed elsewhere and provide specific areas of training. These can include areas such as: strategic and thorough business planning, key performance indicators, product development, partnership management or use of technology. The purpose is to enable them to understand the unique characteristics of microinsurance, address operational capacity gaps and build the necessary technical skills.

Where regulatory changes are expected or current compliance is found lacking, it may be equally important to build compliance skills or train industry representatives on the implications of regulatory requirements for their business models.

- **Supporting MIS development**. Where an insurer's traditional systems are ill-suited to microinsurance, potential activities could include support for management information system or payment platform development. This does not necessarily need to entail buying or subsidising costly systems for insurers. It could be as simple as commissioning a short study to scope available options and the costs, he pros and cons or each, or taking stock of what systems and technology other microinsurance providers use, internationally. Alternatively, it could entail organising a mini-workshop where various software providers are invited to come and present their offerings to the industry.
- **Technical skills development**. Limited actuarial skills are often an industry-wide challenge in developing countries. Supply-side activities could therefore entail support for development of actuarial capacity, for example, through scholarships, mentorship programmes, or internship/trainee programmes for actuarial students in insurance companies. In this regard there is also a role for the regulator. Initiatives to promote actuarial skills development have been pursued in Ghana, Mongolia, and a number of Southern and Eastern African countries.
- **Outsourcing while building capacity**. The Philippines illustrates another case of direct capacity building. RIMANSI, a technical resource centre for microinsurance, was set up to support the development of mutual benefit associations (MBAs). One large MBA was designated to take over the risk management of the portfolios of MBAs who did not yet have the capability to do it in-house, whereupon the supervisor issued them with a licence.

- **Building claims payment capacity and systems.** Given the importance of successful claims in building trust in microinsurance, activities focusing on building capacity in claims payment systems can be particularly effective. In China, for example, a dedicated channel was set up within a conventional insurer to process microinsurance claims speedily.

- **"Get on board".** In some cases, isolated training events may not be sufficient to build real capacity. Thus, the action plan should also consider alternative, more hands-on and long-term engagements. Such engagements could, for example, include placing technical experts in an insurer for a certain time. Placements could be rotated between insurers, or could be awarded on a competitive grant basis. It could also entail building the skill pool in the insurance industry at large by supporting training institutes in appropriate curriculum development, or by organising industry internships or scholarships for those who study actuarial science or related fields.

Stakeholder groups can consider the following lessons when designing the capacity building aspects of an action plan:

Tips for effective capacity building among insurance providers

1. **Understand gaps**. Do not just jump in – first take the time to understand what the exact capacity building needs are and then tailor capacity building strategies accordingly.

2. **Preach to the converted**. Capacity building should not be a patronizing activity. Before embarking on any capacity building activities, insurers must be engaged to ensure that they fully buy into the need for capacity building and recognise the value-add that the activities and topics will have for their current and future business portfolio. Such consultations can be part of the action plan development phase. The gap analysis/supplier capacity assessment exercise is also an ideal opportunity for bringing insurers under the impression of their capacity building needs and testing with them what interventions they would value most.
3. **Do not reinvent the wheel**. While it is important to always tailor activities to the local market realities and needs, stakeholder groups can draw on existing curriculum contents and business model best practice. Various training modules have been developed internationally that could be adapted for the particular country. The Microinsurance Network has compiled an inventory of capacity building tools, including: training courses, toolkits, training of trainer courses, online training tools, handbooks and exercises or checklists. All of these tools can be downloaded via an interactive filter on the Network's website[54].
4. **Take the long view.** Capacity building takes time. A few workshops or other "loose" activities may not be sufficient. It is more likely that the action plan will need to build in a number of different interventions over a longer period of time. Together they will lead to an improved industry capacity. When devising the action plan, it is furthermore important to realise that there is staff turnover among insurers. Until such time as practices and the corporate culture adjusts among insurers at large, capacity building among new staff members will be required.
5. **Peer learning.** Insurers are more likely to sit up and take notice if they are hearing about experiences directly from other insurers in the same country, in the region or globally about the issues and challenges. Facilitating peer learning may therefore be as effective in building capacity as organising training.
6. **Avoid freebies.** Capacity building needs to be something that insurers invest in too, for example, through cost-sharing of training costs. If not, they may not take the training or other activities seriously and may send non-core staff.

5.3. Product development

Prevailing conditions

Another typical finding across diagnostics is that there is only a **limited product suite** aimed at the low-income market and that the **features** of such products do not meet the needs of the microinsurance target market. Indeed, it is often merely a miniature version of mainstream products. Many diagnostic studies find that the supply of microinsurance is concentrated in one or two products such as: personal accident, credit life, funeral insurance or community-based health schemes, and that it has been difficult to make inroads beyond these products, especially in asset insurance[55]. Notably, despite a large proportion of the population often being engaged in agriculture, it has been difficult to establish agricultural insurance at scale. Commercial insurers have also largely been unable to provide an

[54] http://www.microinsurancenetwork.org/capacitybuildingtoolsinventory/tools-inventory.php
[55] The most notable exception is Latin America, where extended warranties are very popular asset insurance products.

adequate health risk cover solution for the low-income market. This is compounded by regulatory barriers as well as poor quality and reach of the healthcare system[56].

Product-related diagnostic recommendations include the need to document and disseminate case studies so as to **demonstrate product innovation** and trigger a market response, as well as the need for the tailoring of product features to target market needs identified through demand-side research. Alternatively, it is sometimes recommended to development organisations, that they partner with insurers in **pilots** or provide **seed grants** to trigger product development.

Action plan implications

Various activities can be pursued to support product development, including:

- **Critically assess product gaps.** An important activity to start off with is to engage with the product-related conclusions in the diagnostic study and, as stakeholders, to agree on where the critical gaps are in supply relative to customer needs, as well as what immediate opportunities could be explored. This is not to say that all insurers must target the same products. Rather, a joint process to identify opportunities and gaps may trigger competitive interest among insurers to be the first or best to respond to the gaps in a particular product area. Another potential activity may be for the joint process to fund a small pilot into a new product area by one insurer, for all to learn from.

  Note that the emphasis should not necessarily fall on new, complex product areas. It may also be that the gap analysis shows an inadequate supply or variety, poor client value or inappropriate features relative to client needs in simple microinsurance products such as: personal accident, credit life or funeral. Capacity building can then be focused on building client value and developing expertise to provide more appropriate products in these product areas. Over time building capacity can allow for the opportunity to enter into more complex product areas such as agricultural risks.

- **Focused market research to inform product development.** As part of, or in addition to the gap analysis above, further market research can be conducted to better understand target market needs, assess the appropriateness of current product offerings, and explore potential products and features that would speak to such needs. This can for example be done through focus group discussions. An important activity would be to get insurers to actually hear from clients about what their product needs are. This can ,for example, be done by producing a DVD with client interviews on their perceptions of insurers, hosting insurer-client forums or inviting insurers to sit in on focus group discussions behind one-way glass.

- **Joint product standards**. Apart from developing new products, the market research and gap analysis will also indicate product development needs in terms of adapting existing products to be more appropriate to the needs of the target market. In devising a response, stakeholders can then, amongst others, consider adopting voluntary simplification standards or common terminology. They may also go one step beyond to

[56] The exceptions here are India and Kenya, where health risk has been a growth and innovation point for microinsurance.

adopt industry standards on product features such as exclusions or grace periods. Stakeholders should, however, caution against too hastily adopting product standards without understanding the implications thereof and without being clear on the purpose it will serve. Box 11 considers the merits and pitfalls of product standardisation as experienced in the case of South Africa:

Box 11. The merits and pitfalls of product standardisation: the case of the Mzansi and Zimele product standards in South Africa[57]

Insurance usage in South Africa was traditionally out of reach for the majority of the low-income population. To address this, and as a consequence of their access target commitments under South Africa's Financial Sector Charter[58], the insurance industry embarked on a set of initiatives whose aim was to increase insurance usage among the low-income population in South Africa. A key aspect of the initiative was the development and implementation of voluntary product standards that would ensure the delivery of appropriate products that meet the specific insurance needs of the low-income market. To this end, the short-term insurance industry, via its industry association, launched the Mzansi product standards for short-term insurance products in 2006, followed by the Zimele product standards for long-term insurers, issued by the long-term industry association in 2007. The standards covered elements such as standard exclusions, standardised and simplified terminology/policy wording, standard provisions regarding grace periods and maximum premiums in the case of the Zimele standards.

A review of these initiatives in 2011 found that there has been a sizable adoption of the standards by both the long-term and short-term insurance industries. The findings suggest that:

- The standards have been successful in facilitating compliance with Financial Sector Charter objectives and in assisting companies to reach their access targets.
- The standards have catalysed better value and commercially viable products.
- The standards have facilitated collective efforts to develop the low-income market.
- The standards have established trust in a common brand.

The study, however, notes that much would have been gained if both industries had engaged in a more vigorous branding and marketing exercise. Indeed, the standards process triggered innovation and catalysed the development of a next generation of products. However, these products were not necessarily branded under the standard brand as insurers did not always want to meet all the specific standards and/or did not feel that the branding added sufficient value to make it worthwhile pursuing.

- **Collective branding.** The case study above shows the potential value – or missed opportunity in this instance – of collective branding. This is also one of the activities pursued as part of the stakeholder process in the Philippines, where all microinsurance products carry the logo and brand of the microinsurance stakeholder initiative.

- **Triggering product innovation.** One way of encouraging new and more appropriate products may be to launch a facility whereby matched grants are awarded on a competitive basis for innovative product ideas. This activity was also mentioned in Section 5.1, as the risk-sharing that it entails helps to trigger microinsurance investments. At the same time, it can be designed to prompt grantees to constantly review the success of new products and features and to learn lessons that can be documented for the benefit of others.

- **Pooling resources.** Finding some way of pooling data across insurers where data constraints on, for example, claims experience, may undermine product development. In

[57] Source: Chamberlain, D., Ncube, S., et al, 2011. Review of Mzansi and Zimele product standards. Study conducted by Cenfri, funded by South African Insurance Association, Old Mutual and FinMark Trust. Available at: http://www.cenfri.org/k2/item/98-review-of-mzansi-and-zimele-product-standards-2011.

[58] An agreement negotiated between government, industry and labour on transformation in the financial sector. It includes targets for extending access in various financial services.

areas such as weather index insurance, pooling resources for research and development or weather data may be essential. Stakeholders can also consider creative ideas regarding sharing of technical skills. For example, in countries where actuarial skills are limited, it can be envisaged that the stakeholder committee sources actuarial skills for certain calculations that can then be applied to microinsurance product development by various insurers (refer to Box 12).

Box 12. Sharing of actuarial skills across industry: a viable response to product development challenges?

The IAIS *Application Paper* recognises that it may be necessary in the microinsurance sphere to share resources, or develop a formula-based approach that can be applied by all players who wish to do so, with regard to certain aspects of the actuarial function (Guidance 8.5.5 under ICP 8).

In a few countries, such an approach is already being applied, with the technical elements of product design being shared at industry level to reduce product development costs. So, for example, the stakeholder committee in Ethiopia commissioned an actuarial consulting firm to develop the technical parameters for a joint product, which each insurer could then adapt, brand and roll out in their own fashion. This approach has also been applied in the Philippines. A recent initiative supported by GIZ-MIPPS and rolled out under the *National Strategy for Microinsurance* was the creation of “prototype policies” for life and non-life insurance, respectively, and with plans to expand it to agricultural insurance. These prototype policies are technical product templates that are compliant with the regulatory definition of microinsurance in the Philippines, as well as the general features of microinsurance products. Each insurer can shape the exact features, trigger and pricing of the product according to their own strategy.

- **Cross-fertilisation**. A number of the business case and capacity-building activities will also address the product development challenge. So, for example, product development can be one of the core modules of an operational training course or the topic of a separate, dedicated course. Workshops on international case studies can trigger product ideas and generate learning regarding particular product features.

The examples above generate the following considerations for the stakeholder action plan:

Tips for effective product development-related activities

1. **Let competition lead the way.** The best way to ensure product innovation is for first-movers to demonstrate success, thereby triggering a competitive response. The action plan should therefore take a strategic stance on how to support innovative ideas through a competitive mechanism and/or showcase domestic and international examples of trendsetters.
2. **Part of the package**. Product development does not stand by itself. It relates closely to the considerations highlighted for business case and capacity building in the industry. The action plan should take a coordinated approach to triggering supply, incorporating all aspects.
3. **Consider the merits of public goods**. Prototype products, pooled resources or a shared research and development agenda on elements that individual insurers do not normally have the resources to invest enough in, such as information technology or market

research, all have the potential to reduce product development costs for individual insurers. The action plan can form a platform for reaping such synergies through a joint agenda, as long as it is done in a way that still encourages competition.

6. Distribution[59]

The final, often most important, supply-side question is how to get the product to the market in a cost-effective way.

Prevailing conditions

Distribution is a particularly important topic given that the target market is typically not formally employed, has low and irregular incomes (implying the need for low premiums), has low literacy, often resides in rural areas and tends to be unbanked. All of these factors make it difficult to reach them through traditional insurance distribution channels that focus on one-on-one sales, and the "easy" ways of reaching them through bancassurance or employee groups may not be available. This requires distribution innovation: on the one hand through alternative distribution channels that leverage groups, underlying brands, existing consumer networks or technology, or, on the other hand, through a reinvention of the agent channel in line with the increasing recognition of the target market need for face-to-face interaction. Yet the distribution status quo in many countries is one of broker dominance, with a still largely top-end market focus. Triggering distribution innovation is therefore an important area for any stakeholder action plan.

Diagnostic findings confirm that **weak financial and general infrastructure** undermines microinsurance distribution. The bulk of the population does not have access to the financial system. The financial sector footprint in terms of branches, ATMs and POS devices is also often limited, which challenges **premium collection** and claims payment. Indeed, regular premium collection among a largely rural and unbanked target market with low and irregular incomes, is highlighted time and again as the biggest challenge to microinsurance growth at scale[60]. Where general infrastructure is concerned, unreliable electricity and internet connections, mobile network downtime, poor roads infrastructure, a limited retailer network and/or inadequate healthcare service provision can all challenge insurance distribution – to name just a few examples.

Furthermore, the fact that the target market can only afford to pay low premiums implies **tight margins** from which to pay distribution expenses. For this reason, microinsurance is often a hub for innovation regarding cost-efficient distribution through alternative

[59] Note that the Access to Insurance Initiative has embarked on a cross-country synthesis exercise that highlights the emerging microinsurance business models, internationally, the distribution features of each and the regulatory implications thereof. For an overview, see:http://www.a2ii.org/fileadmin/data_storage/documents/external_documents/2013_11_12_A2ii_Presentation_Consultative_Forum_Jakarta_Note_1_consultat....pdf

[60] The rise of branchless banking and especially payments innovation around mobile payments therefore provide an important client communication and premium collection opportunity for insurance distribution. To effectively make use of such channels, however, clients need to trust and know how to use them. Furthermore, in jurisdictions where there is no electronic commerce regulation yet, the ability to do electronic contracting and rely on digital signatures may be a challenge. Another challenge is meeting customer due diligence requirements under anti-money laundering legislation in a non-face-to-face origination scenario.

channels[61]. An alternative distribution channel would typically use the **existing infrastructure** of a third party called an **aggregator** to gain access to its **existing client or member base**. An aggregator can be anything from a cooperative, a bank or MFI, to a mobile network operator[62], a utility company, an agricultural processor or input supplier, a retailer, a market association, an affinity group such as a sports club, a community association or even a faith-based organisation. The potential is enhanced when the aggregator has an existing **financial payment relationship** with the clients or members on which the insurance transaction can piggyback.

Alternative distribution channels are, however, not without challenges. Some of the main challenges emerging from the diagnostic findings are:

- **Limited capacity** among aggregators and their staff in microinsurance front and back office functions – sometimes driven by inadequate incentives.
- **High distribution costs** where the balance of power is in favour of large distribution channels that "own" access to a large client base, prompting insurers to compete for access to the client base.
- **Misaligned partner incentives**: the partner's main business is not insurance. Unless the partnership is correctly set up, the partner will have limited incentive to ensure the success of the insurance venture.
- **Limited customer value**: alternative channels can also deliver limited value to customers, especially if they are not aware that they have insurance cover or cannot easily claim. In this way they can undermine – or at a minimum not contribute to – the development of an insurance culture.

To overcome these challenges, typical diagnostic recommendations would include:

- Find ways of more effectively leveraging agent networks.
- Think beyond traditional channels, better understand alternative distribution opportunities and capacity.
- Go for the "low-hanging fruit" first – exploit distribution opportunities to existing groupings and piggy-back on existing infrastructure, e.g. co-ops/SACCOs, MFIs, the banked market or the employed market.
- Be strategic about distribution partnerships: engage in active partnership brokering, make sure that roles are clearly defined and that the business model works and is cost-effective for both parties.
- Build partners' capacity in microinsurance.
- Promote the cost-effective use of technology in distribution and client communication.
- Overcome regulatory obstacles, for example: restrictions on financial service providers or other entities acting as distribution channels (refer to Section 2 for a discussion on regulatory activities).

[61] See, for example, the case studies and thematic papers on distribution on the ILO Microinsurance Innovation Facility website, available at: http://www.microinsurancefacility.org/en/thematic-pages/distribution

[62] See, for example, a recent GSMA/CGAP study to take stock of emerging practices in mobile microinsurance (Tellez, 2012). Available at: http://www.gsma.com/developmentfund/wp-content/uploads/2012/07/MMU_m-insurance-Paper_Interactive-Final.pdf

Action plan implications

Potential action plan activities to respond to distribution-related diagnostic recommendations include:

- **Investigating the role of agents.** Demand-side research suggests that face-to-face interaction may be very important in selling insurance and engendering trust. Thus, developing the second tier agent model can be quite critical. Yet individual agent sales are typically limited in microinsurance due to the low commissions implied by low-premium products. One of the first-order action plan activities regarding distribution may therefore be to scope the current and potential role of agents and ways to more cost-effectively leverage agent networks.
- **Scoping potential channels.** The stakeholders may decide to commission further research to better understand what potential distribution options are available in the country. For example, in Zambia, the action plan included a study on the landscape of potential client aggregators. After identifying the aggregators, the consultant held interviews with each to gauge (i) their potential interest in acting as insurance distribution channel and (ii) their capacity to do so, which included indicators such as whether they have a well-functioning structure, their staff capacity, financial management structures, etc.
- **Facilitating insurer-aggregator networking.** If insurers do not immediately respond to the potential channel opportunities highlighted by initial research, further activities could include inviting potential aggregators to a workshop or "trade fair" with insurers to encourage networking between insurers and potential partners. Potential aggregators could even be invited to present to insurers how their organisation works.
- **Convincing aggregators of the microinsurance value proposition**[63]. Aggregators may not properly understand insurance or be interested in acting as distribution channels. They need to be convinced of the value proposition of microinsurance for them and their clients/members in the same way that insurance executives need to be convinced of the business proposition – a mere sales incentive in the form of a commission may not be enough[64]. An added complexity is that insurance is not their core business. They may even perceive insurance as distracting their staff and systems from core activities. Part of the engagement process with potential aggregators is, therefore, to explain the rationale and the positive impact that insurance distribution can have on their core activities, for example: by enhancing client loyalty[65], creating an additional revenue stream or providing them with a competitive edge over other providers that do not offer insurance to their clients.
- **Exploring broker appetite.** Another action plan activity could be to establish whether there are brokers that are prepared to develop products and distribution channels for the low income market and act as market maker that matches insurers and potential

[63] See the lessons in this regard across case studies in Brazil, Colombia and South Africa in: Smith, A., Smit, H. & Chamberlain, D. 2011. Beyond Sales: New Frontiers in Microinsurance Distribution. Available at: http://www.ilo.org/public/english/employment/mifacility/download/brnote7_en.pdf. Various learning journey descriptions from microinsurance innovation grantees also render valuable lessons. See: http://www.microinsurancefacility.org/en/thematic-pages/distribution

[64] See the Emerging Insight discussion in this regard on: http://www.microinsurancefacility.org/en/ei32_en

[65] For example: an insurance offering may disincentivise churn among customers of a mobile network or retailer or incentive clients to buy more airtime minutes or spend more in-store.

aggregators. The presence of international broker networks that have entered the low-income market in other countries may be a first-order opportunity.

- **Partnership brokering.** In the absence of brokers as matchmakers, another level of engagement for the stakeholder group could be to actually broker partnerships between interested aggregators and insurers. In another example from Zambia, the stakeholder group appointed a consultant with experience and networks in the agricultural industry to engage agricultural value chain organisations. These included organisations such as cotton ginners, which were indicated in the initial aggregator study as the highest-capacity potential aggregators, in order to further explore their interest and potential as aggregators. The next step was to facilitate meetings between them and any interested insurers to discuss potential partnerships. Should an insurer be interested in taking the discussion forward, the same person would then facilitate further meetings and help to shape the discussion so as to broker potential partnerships. Similarly, in the Philippines, partnerships were facilitated between schools and insurance companies to sell life insurance covering tuition fees, as well as a small health and personal accident component, through the school structures. Where a third-party administrator or partnership broker such as MicroEnsure is present in a country (in Ghana and Tanzania, for example, they brokered partnerships with mobile network operators for mobile insurance distribution), the need for the stakeholder committee to pursue this activity may be less pronounced.
- **Insurer training on partnership design and management.** This activity was mentioned as one of the potential capacity building components in Section 5.2, but is equally relevant to distribution. Once an insurer and an aggregator agree to partner, there are various aspects to get right in ensuring that incentives align, roles are effectively allocated, and systems are set up to ensure that the partnership functions efficiently on a day to day basis. Institutions like the ILO Microinsurance Innovation Facility have developed training modules in this regard, including case studies and checklists on how to assess and manage partnerships[66].
- **Building distribution capacity, with an emphasis on sales quality.** Another potential activity would be to provide front and back-office training to the staff of current or promising potential distribution partners. They, rather than the insurers themselves, are often the face of microinsurance. This means that it is extremely important to ensure that they understand and can effectively fulfil the required distribution functions. They are also the "front line" to educate consumers during the sales process, and should therefore be equipped to do so. Alternative distribution channels often engage in tick of the box sales. In order to maximise the opportunity for the insurance client to have a positive experience, emphasis is needed on promoting quality sales through the training of salespeople. At the systems level, support can be provided to develop management information systems among current and promising potential partners that are compatible with that of insurers, and train staff on the systems elements.
- **A proactive coordinator.** Distribution can also be facilitated indirectly through the day to day activities of the coordinator. Apart from coordinating the stakeholder process, that person is dedicated to have her/his ear to the ground, keep abreast of developments,

[66] Various tools can be downloaded from: http://www.microinsurancefacility.org/en/thematic-pages/distribution. There is furthermore a webinar on the topic that can be viewed at: http://www.youtube.com/watch?v=HBXQv4iMGukThe partnership assessment questionnaire can be downloaded from http://www.microinsurancefacility.org/sites/default/files/content/thematic_page/tools/Partnership_Assessment_Questionnaire.pdf

see opportunities arising, alert market players of such opportunities and facilitate discussions between insurers and potential partners.

- **Emphasising payments.** Lastly, stakeholders can explore how to facilitate cost-effective premium collection and claims payments as part of various distribution models.

In deciding which distribution-related activities are most effective to pursue in the particular country and in what way to go about it, stakeholders should be aware of the typical partnership obstacles to prevent and manage, which give rise to the following emerging cross-country lessons:

Tips for effective distribution partnerships[67]

1. **Align incentives**. As discussed above, insurers and partners have different core businesses. This makes it imperative, firstly, to understand what the distribution partner's business model is and, secondly, to clearly define and reach agreement upfront on what the value of the partnership is for each. It is also important to get potential partners to see the partnership as one that supports their core business. Opportunities should be explored for the potential to integrate their core business with the insurance benefit provided. For example: a life insurance policy sold through a utility could cover a stated number of months of the deceased family's electricity account as part of the pay-out. Such policies are, for example, found in Brazil and Colombia.
2. **Clear communication**. Where roles are not clear and the partnership does not work as efficiently as it should, a "broken telephone" problem may arise with blame being shifted around to the detriment of the partnership. Effective communication channels should therefore be designed from the start. By working through issues and challenges together, you ensure that trust and commitment are cemented into the partnership. Here there is an important role for a third party facilitator to ensure genuine dialogue between partners and help them to identify potential issues upfront. To help the facilitator and partners in this regard, the partnership assessment questionnaire developed by the ILO Microinsurance Innovation Facility is a handy tool[68].
3. **Shape partnership expectations**. An important part of aligning incentives and ensuring clear communication is to manage expectations among both partners on what the partnership can achieve. To this end, it may be useful to develop a joint business plan. Various training materials and tools are available for business plan development in microinsurance[69]. It is also important to recognise upfront that partnerships get harder to manage as initial excitement wears out. Setting learning objectives and measuring progress against them can help retain commitment.
4. **Navigate regulatory implications.** Aggregators that operate in the informal sector may not want to come into the regulatory net. An insurance distribution partnership typically entails some kind of regulatory oversight. This could make them reluctant to come on board as distribution partners. Hence, the role of the supervisor in the stakeholder process, facilitating interaction between the insurer and potential distribution channels to build mutual understanding and devising an appropriate and proportionate regulatory response to aggregator distribution all become important strategies.

[67] Drawing on the Top 5 Tips for managing partnerships in microinsurance available at: http://www.microinsurancefacility.org/en/thematic-pages/distribution

[68] www.microinsurancefacility.org/sites/default/files/content/thematic_page/tools/Partnership_Assessment_Questionnaire.pdf

[69] See, for example: http://www.microinsurancenetwork.org/publication/fichier/Business_Planning__2011.pdf. Also see the business planning training curriculum available from:

5. **Balance power.** It is important to get the balance of power in the partnership right. Friction may arise regarding who owns the client base, who has access to client information, and who gets what share of the "revenue pie". Where insurers all compete for the business of a few core aggregators with a large client base, the balance of power may be shifted in favour of the aggregator. In such instance, the aggregator may demand a high proportion of premiums, implying that claim payments as a percentage of premiums can only be very low. This will, in turn, imply poor customer value and consumer protection concerns. In engaging with potential partnerships and helping insurers to navigate them, the stakeholder group should be aware of these potential problems and actively engage with activities aimed at overcoming them as relevant to the particular context.

7. Action plan monitoring and evaluation[70]

Monitoring and evaluation (M&E) is the final link in the life cycle of an in-country action plan process. It takes stock of what has been implemented so far, in what ways it has worked and had an impact, and how it can be adjusted to better effect. As such, it has a key strategic role in any action plan.

Prevailing conditions

Despite its importance, M&E is often the most neglected activity in a stakeholder process. While a number of initiatives are ongoing to assess the impact of specific microinsurance products or initiatives[71], M&E has yet to be fully built into country-level stakeholder microinsurance development processes. This can be for a number of reasons:

1. A dedicated or professional evaluation exercise may be **expensive** and stakeholders may prioritise actual implementation activities above it.
2. Those involved may not be sure what the **purpose** of M&E is, who takes responsibility for it, what exactly the **difference** is between monitoring and evaluation and how to approach each respectively (see Box 13).

Box 13. What is monitoring and evaluation?[72]

Monitoring involves the regular collection of data on a programme or service. It tends, therefore, to result in a regular flow of information on the progress being made towards the intended outcomes. Generally speaking this is quantitative and can look at both operational progress in the roll-out of the action plan or programme and the reach or successful implementation of specific activities.

Evaluation, in contrast, involves a periodic or once-off in-depth analysis of the action plan or a specific project's performance against pre-determined objectives and anticipated outcomes. It may also look at process. It will almost certainly use monitoring data as an input, alongside other information, to learn lessons. Evaluations are often (but not always) carried out by independent evaluators.

[70] It is important to note that this section focuses on monitoring and evaluation of the progress and impact, in terms of market outcomes, of the stakeholder activities. It does not deal explicitly with the evaluation of regulatory impact.
[71] The ILO Microinsurance Innovation Facility provides an overview of impact evaluation studies to date on: http://www.microinsurancefacility.org/en/thematic-pages/proving-client-value. For an overview of M&E issues specifically relating to consumer education, see the "Emerging Insights" on the Microinsurance Facility website, available at: http://www.microinsurancefacility.org/en/thematic-pages/consumer-education
[72] Adapted from Kempson, E., 2008. *Monitoring and Evaluating the DFID Financial Education Fund*. Personal Finance Research Centre, University of Bristol. May 2008.

Objectives. The **objectives** of monitoring and evaluation of activities include:

- To establish the *relative effectiveness* of interventions.
- To track the progress and efficiency of the implementation of individual *projects*.
- To track the progress, efficiency and effectiveness of the management of the *programme* as a whole.

Purpose. M&E forces stakeholders to take stock of whether the action plan is working: what aspects of the strategy have encountered challenges? What elements are lagging behind in implementation? Why? It also provides an opportunity to assess whether the context, market conditions or enabling environment has changed and what that implies for the outcomes of the action plan.

Who is responsible to gather the data? Is the data collected by agreement between the stakeholders, by a designated entity, or by the regulatory authority? Since private providers are very cautious with proprietary data, trying to do M&E without the authority of the insurance supervisor may be challenging.

3. There is no clear definition of the **target market** against which progress can be measured. For example, should insurance usage trends be tracked in aggregate, or for specific products, distribution channels or target market segments? Often, products that can be classified as microinsurance or serving the low income market are not tracked or even identified.
4. There may not be a clear **baseline** against which to measure progress. In the Santa Marta consumer education project referred to in Section 4.1, CNSeg conducted a baseline survey at the start of the project to understand the socioeconomic situation and existing knowledge of insurance and risk management practices within the community. This information was used to design the education interventions. At the conclusion of the project, CNSeg will repeat this survey to evaluate the effect of the interventions on their understanding of insurance[73]. However, where a baseline scenario is not designed into the process from the start – or where the diagnostic itself does not provide adequate information to serve as baseline – stakeholders may find it daunting to identify a baseline situation and define progress indicators to track down the line.

5. There may not be agreed **indicators** to measure. The microinsurance network has developed key performance indicators for microinsurance that can be drawn on. In some instances, notably the Philippines, the stakeholders also define performance standards amongst themselves.

6. Even where indicators are agreed upon, standardised **data** on which to benchmark performance indicators remains problematic. The insurance supervisor may have data, but the data is usually not segmented for microinsurance and not analysed with regard to performance in the microinsurance market. Insurers are furthermore often reluctant to share data.

[73]Thus far, they have found that using uptake as an indicator to monitor impact is not sufficient, as there could be many other factors that influence this figure, like the quality and price of products and the capacity to deliver them. Mechanisms to gather additional information on the products and their registration and claim processes, and to track uptake and knowledge, skills and attitude changes need to be set up in order to measure the impact of the campaign. Source: Microinsurance Innovation Facility, 2010. Learning Journey: Changing the Perception of Microinsurance. CNSeg, Brazilian Insurance Confederation and International Labour Organisation. Available at: http://www.microinsurancefacility.org/en/learning-journey/risks-and-insurance-literacy-0 (accessed August 2012).

Action plan implications

It is clear from the discussion above that monitoring and evaluation should not be an *ad hoc* activity, but should be strategically planned into the action plan and stakeholder process from the outset. How can this be done? Potential action plan activities for the design of effective M&E include:

1. **Understanding what you want to do**. The first step is to reach consensus on why monitoring and evaluation is important and what they each will entail in the local context. Should the resources be available, it is advised to incorporate a formal, independent impact evaluation exercise at defined intervals to measure the outcome of the action plan against the desired end-state. Alternatively, impact can be assessed internally through a process and method to be agreed between stakeholders. To decide on the appropriate course of action, the stakeholders can nominate a sub-group or the coordinator or even commission a small consulting exercise to summarise the international literature on the various components of monitoring and evaluation. How the findings from the exercise can be pursued most cost-effectively, and what lessons and best-practices should be taken into account can be explored from this process. Based on the findings, the stakeholder group can reach agreement on what M&E activities to pursue.

2. **Deciding who will do the monitoring and evaluation.** Another important stakeholder activity is to decide the mode for collection of data for M&E purposes and, importantly, who will be responsible for collecting and analysing data. As discussed above, the release of data by insurers can be problematic. Part of the stakeholder process can therefore be to obtain buy-in by insurers for the need for M&E.

3. **Ascertaining what the starting point and end-goals are.** Equally important is to define the current or baseline situation that progress can be tracked against. A number of aspects could be relevant to the baseline, including: the current landscape of usage, the current industry structure and performance, the current microinsurance product offering (in terms of its diversity and features), the current regulatory framework and provisions of relevance to microinsurance, to name just a few. As a starting point, the diagnostic report can be analysed to see what baseline situation it sketches. Where there has not been a diagnostic study, other sources can be considered or a baseline stock-take exercise commissioned.

   Along with the baseline situation, stakeholders can also define the end-goal that they aspire to and the milestones or essential building blocks to reach that end-goal. The goal could, for example, be stated as more relevant products targeting the low-income market, distribution within easy and convenient reach of the target market, more appropriate product features that deliver value, more educated consumers and/or a more facilitative regulatory framework leading, ultimately, to more usage. It is important to prioritise and set realistic goals, as well as to acknowledge that goals may need to be adjusted over time, as the goal posts may shift in an evolving market.

4. **Defining what to track.** The progress indicators to track are informed by the baseline situation and end-goal. Different indicators can be used to measure (i) progress in terms of activities pursued and (ii) the actual impact of such activities. Indicators can relate to each of the areas of market or regulatory activities discussed in this document, namely demand-side, suppliers, distribution, policy, regulation and supervision.

For the **market indicators**, the key performance indicators (KPIs) defined by the Microinsurance Network (Wipf & Garand, 2010[74]) can be used as starting point. The KPIs identified for microinsurance are:

1) Incurred expense $ratio_n$ = Incurred $Expenses_n$ / Earned $Premium_n$
2) Incurred claims $ratio_n$ = Incurred $claims_n$ / Earned $premium_n$
3) Net income $ratio_n$ = Net $income_n$ / Earned $premium_n$
4) Renewal $ratio_n$ = Number of $renewals_n$ / Number of potential $renewals_n$
5) Coverage $ratio_n$ = Number of active $insured_n$ / target $population_n$
6) Growth $ratio_n$ = (Number of $insured_n$ – Number of $insured_{n-1}$) / Number of $insured_{n-1}$
7) Promptness of claims settlements = Analytical breakdown of service times taken to process and pay a set of claims
8) Claims rejection ratio = Number of claims rejected / number of claims in the sample
9) Solvency ratio = Admitted $Assets_n$ / $Liabilities_n$
10) Liquidity $ratio_n$ = Available cash or cash $equivalents_n$ / short-term $payables_n$

The incurred claims ratio is an important ratio for tracking the **value offered** by microinsurance products alongside the incurred expense ratio and the net income ratio of the industry. Normally only the supervisor can ask for and receive this data.

While all these KPIs are relevant for microinsurance businesses, not all can feasibly be tracked by supervisors. The IAIS *Application Paper* includes a discussion on the proportionate application of ICP 9 on Supervisory Review and Reporting, highlighting that supervisors should track, at a minimum, the information that would be contained in an income statement and balance sheet (or other information equivalent in outcome) that:

> "i. identifies the effects of reinsurance on income statement and balance sheet items so as to facilitate the analysis of the insurance business on a "gross" and "net" of reinsurance basis;
> ii. relates to the insurance business specifically when the enterprise is involved in both insurance and non-insurance activities;
> iii. separately identifies expenditure associated with claims payments from those of operating and other expenses;
> iv. are provided not less frequently than annually or on request."

Tracking of such information would allow calculation of a number of key performance indicators such as the incurred expense ratio, incurred claims ratio, net income ratio, solvency ratio and liquidity ratio. Additional KPIs that could be considered include: the policy renewal ratio (or, inversely: lapse ratio), promptness of claims settlement ratio and growth ratio (measuring the growth in the number of policies).

In most instances there is no separate regulatory definition of microinsurance yet; hence, there can be no separate reporting on microinsurance policies. Where this is the case, it is still important for the supervisor to track key performance indicators in the industry at large and especially in certain policy classes that are most relevant to microinsurance.

[74] See www.microfact.org

Other generic indicators that can be used as starting point include:

- The number and types of microinsurance **providers.**
- The **distribution channels** used for microinsurance intermediation: number of entities, role, size of channel as percentage of total market where available, number of insurers using each channel.
- The number and appropriateness of microinsurance **products** offered: total and by category (as per definition of microinsurance adopted). Taking this one step further, an "appropriateness index" could be compiled based on (i) *affordability* in line with income level and regularity realities of target market, (ii) *accessibility* for buying the product, (iii) *premium payment* methods and flexibility, (iv) *claims* procedures and (v) *features* vis-à-vis the target market's realities and needs.
- The number of people **taking up** microinsurance and the geographic and demographic composition of take-up, subject to availability of data.
- Where survey data covers such topics, indicators on aspects such as **social cohesion** and **financial literacy** will also be useful to track.

Indicators can also relate to **processes** and not just topical areas, for example, the number of activities implemented, or the number of partnership discussions initiated. In this regard, it may be useful to distinguish between **output** and **outcome** indicators.[75] Output indicators can be used for monitoring progress in terms of process and implementation of activities, whereas evaluation focuses on progress in achieving the ultimate goal or outcome-level indicators.

An important challenge in defining indicators is whether to track progress in a specific sub-set of products/vis-à-vis a specific target market, or whether to target market development more broadly. It may not be practically possible or even desirable to isolate microinsurance from the broader market development.

Attributing success. If the baseline and end-goal are set in terms of market development more broadly and the indicators relate to market-wide rather than microinsurance-specific trends, it creates the challenge of attribution: what part of progress and impact can be attributed to the stakeholder process? Careful deliberation is needed on how to engage with this issue and what counterfactual factors should be taken into account – that is, what would have happened anyway or what the situation would have looked like without the implementation process and activities? Ultimately, however, as long as progress is made towards the end-goal, attribution is arguably less important.

Stakeholder groups can consider the following lessons when designing the M&E component of an action plan:

[75] This topic is explored in depth in Technical Advisory Group (TAG) Zambia. 2011. Toolkit for Monitoring & Evaluation of Financial Education in Zambia. Financial Education Fund.

Tips for effective M&E

1. **Start modestly.** The M&E strategy can be as simple as setting out the goal, baseline, a few core indicators and a timeline and approach for measuring them. Where resources are limited, a phased approach can be considered whereby stakeholder agree, for example, to start small by monitoring a few process indicators, and then to conduct a more detailed evaluation exercise down the line. Even in such a scenario, however, the building blocks for the eventual evaluation exercise should be put in place from the start so that, when the time comes, the information base and tools are in place for a successful evaluation exercise.

2. **Strategically determine indicators.** Ultimately, the exact indicators and sub-indicators to track and how they can be measured should be defined at country level, relevant to the local realities and what is realistic to track with the resources available[76]. Where hard data is not readily available, for example on quantitative indicators such as growth in policies over time or changes in claims ratio, qualitative measures may be a good start. Recording of anecdotal evidence or a simple evaluation form on value-add to be filled out by participants at the end of each activity, with the results analysed and fed back to the stakeholder group, are just two examples of qualitative measures.

3. **Be pragmatic.** M&E is a costly exercise. Where it can be institutionalised in the regular reporting of the industry to the regulator, valuable resources can be saved.

4. **Explicitly make provision for the feedback loop.** Plan how to use the learning from the M&E exercise to adapt the action plan and approach and at which defined moments such an adjustment of course will be considered.

All of the above pertains to *country-level* monitoring and evaluation. Monitoring and evaluation can also contribute to learning at a regional and global level. It is therefore important for the M&E strategy to take into account how it can feed into the global and regional community of practice[77]. There must be regular exchange amongst peers at a regional and global level to ensure learning. In this way, a community of practice can be built up where emerging best-practices can be shared and critically assessed.

8. Summary: potential action steps, lessons and tips

This toolkit set out considerations for an effective stakeholder process and action plan to develop an inclusive insurance market. It considered activities aimed at four levels: policy, regulation and supervision; the demand-side; insurance providers; and distribution. It then considered how to monitor progress, evaluate impact and adapt the action plan accordingly.

There is no “one-size-fits-all” solution. Each country needs to chart its own course and implement activities that are needed and will work in the domestic context. Nevertheless, there are a number of cross-country lessons and considerations that can help stakeholders

[76] See the Toolkit for Monitoring & Evaluation of Financial Education in Zambia, 2011, for an example of how generic M&E practices can be used and altered in a country-specific context to best execute an M&E strategy.
[77] See, for example, the projects of the Microinsurance Network: www.microinsurancenetwork.org

navigate the decisions to be taken along the way. The main lessons highlighted in the toolkit are recapped below:

Process lessons

1. Create a representative structure.
2. Ensure buy-in by speaking to different needs and incentives.
3. Leverage existing processes for low-income market development.
4. Make sure to share outputs beyond the core group so as to reach all stakeholders.
5. Designate a coordinator to drive the process.
6. Ensure local ownership.
7. Prioritise endorsement by the supervisor.
8. Sequence activities.
9. Maintain momentum across a clear time frame.

Action plan lessons

1. Dedicate time to get it right – carefully plan the action plan.
2. Be context-specific – let the country context, market realities and nature of the regulatory framework inform the activities pursued.
3. Understand market dynamics to inform the activities.
4. Set clear goals and align activities to desired outcomes.
5. Be realistic – rather see through a handful of activities than be too ambitious.
6. Be willing to adapt the plan if initial activities do not have the desired effect.
7. Build fundraising into the plan from the start.
8. "Do-it-yourself" rather than copy and paste an approach from another country.

Policy, regulation and supervision lessons

1. Navigate the policy-making landscape and determine who the key decision makers are.
2. Determine the most appropriate format to convey the policy position.
3. Incorporate inclusive insurance-relevant policy in broader existing policy thrusts.
4. Recognise the importance of signals to the market.
5. Acknowledge that a microinsurance development policy does not necessarily need to be part of a formal national strategy.
6. Know what the carrots and sticks are that regulation can use to impact on the market.
7. Decide whether microinsurance regulatory reforms are needed and, if so, strategically consider which elements to include, and in what way.
8. Use the stakeholder process to devise proposals and support the supervisor – recognising that ultimately it is the supervisor's prerogative to decide on and implement regulation.

9. Recognise that activities aimed at assessing, supporting and building supervisory capacity and at facilitating coordination between supervisors of various fields and in various countries, are core to the action plan. In so doing:
   - Start by assessing current supervisory capacity.
   - Make the most out of existing capacity while over time building capacity.
   - Bring a variety of departments and operational staff on board.

Target market-activity considerations

Activities aimed at the target market can include initiatives to improve market conduct so as to engender trust, consumer education and generating further demand-side insights. There is not enough learning in projects conducted under the Initiative umbrella yet to distil specific lessons or tips with regard to insurance consumer education.

Lessons for activities aimed at stimulating supply

Activities can be aimed at building the business case for microinsurance, building supplier capacity, triggering product development and innovation, or stimulating distribution innovation and partnerships.

Business case:

1. Understand that microinsurance is unlikely to be sustainable if it is just pursued for quick gains.
2. Recognise that microinsurance requires a different business model from traditional insurance.
3. Be realistic about the potential challenges, and that microinsurance may take some time to become profitable.
4. Use the supervisor as champion to advocate for microinsurance or challenge the market to respond.
5. It may be necessary to support some microinsurance ventures to create a demonstration effect, but it must be done through a transparent, competitive process.

Capacity building:

1. Understand the particular capacity gaps that prevent microinsurance roll-out at scale on the industry level, as well as within individual insurers.
2. Do not force capacity building on insurers. First make sure they buy into the need for it.
3. Draw on available materials and curricula for microinsurance capacity building in various areas and adapt it to the local context where necessary.
4. Recognise that capacity building is a gradual process and will not be achieved through just a few training events or workshops.
5. Facilitate peer learning through exchange with insurers and other value chain players in other countries that have gone through the process.

6. Let insurers demonstrate their commitment by co-funding training and technical assistance.

Product development:

1. Design activities to trigger competition: where one player launches a new product, competitive pressure mounts on others to follow suit.
2. Product development is part of, and flows from, the broader strategy to build supply-side capacity. Establish the business case and trigger distribution partnerships and innovation.
3. In some instances, sharing resources such as technical skills for product development may bring down cost sufficiently to trigger product development innovation among individual players.

Distribution:

To ensure effective distribution partnerships with third party aggregators:

1. Insurer-aggregator incentives must be aligned.
2. Clear communication is required.
3. Both parties' expectations need to be shaped.
4. Any regulatory implications should be proactively navigated.
5. Power relationships within the partnership should be balanced or anticipated upfront.

Monitoring and evaluation tips

As with consumer education, the Initiative has not built up direct experience on monitoring and evaluation of a stakeholder process. Nevertheless, the international literature suggests a number of generic considerations to take into account when designing the M&E component of an action plan:

1. Start modestly – the M&E strategy can be as simple as setting out the goal, the baseline, a few core indicators and a timeline and approach for measuring them.
2. Define clear and realistic indicators to track that are relevant in the domestic context.
3. Be pragmatic about what can be achieved within the available resource envelope and how to institutionalise M&E in the regular reporting of the industry to the regulator.
4. Plan how to use the learning from the M&E exercise to adapt the action plan and approach and at which defined moments such an adjustment will be considered.

Appendix 1: Country-level process experience

Different countries have followed different paths towards microinsurance development:

Brazil

Brazil illustrates a case where the diagnostic study (completed in 2010) followed only later on in the process, to integrate and give further direction to strategic movements around microinsurance development from both industry and the supervisors. The Brazilian supervisor, SUSEP, has been a key partner in the IAIS-MIN Joint Working Group on Microinsurance for a number of years and until recently served as the Chair. In this way, Brazil has been part of the international dialogue on microinsurance and could draw on that, as well as feed learning into the international sphere, as it developed its thinking on microinsurance.

Given its unique economic circumstances and history, Brazil has a strong policy focus on social inclusion, of which financial inclusion is an important part. SUSEP has over the past ten years been implementing various regulations that have enabled the introduction of new distribution channels and new products.

Brazil has been engaging with the microinsurance regulation topic for a number of years. Throughout, it has followed a consultative approach, dating back to the National Council for Private Insurance (CNSP)'s formation of a Microinsurance Consultative Commission comprised of SUSEP and various private sector stakeholders in 2008 and the tabling of a microinsurance bill to Congress in the form of *Draft Bill 3.266/2008*. In 2011, the decision was made to develop subordinate legislation rather than to further pursue a separate Act. At the end of 2011, the CNSP issued a *Microinsurance Resolution* which created a new category for microinsurance agents and correspondents and allowed for special rules for microinsurance provision. The resolution formed the basis for the drafting of rules and standards to flesh out the details for the microinsurance regime. Once again, a consultative approach was followed: various working groups comprised of SUSEP staff and industry association representatives were formed to determine the exact regulatory positions. In mid-2012, the process resulted in the publication of a set of circulars covering various topics including the conditions for microinsurance authorisation, the definition parameters for microinsurance and the conditions for distribution through microinsurance correspondents and brokers, respectively.

The main process lesson from Brazil is that there has been significant market and regulatory movement despite the fact that there has been no concerted strategy or single coordinated stakeholder process thus far. There is an ingrained culture of consultation between the supervisor and industry, as well as a highly organised industry association that coordinates demand-side activities and research inputs to regulatory reform. Throughout, Brazil has benefited from its participation in international forums. Implementation support to Brazil will now be incorporated under the Latin American project of the Access to Insurance Initiative and the Inter-American Development Bank Multilateral Investment Fund.

Ethiopia

In Ethiopia, the supervisor has been part of the process alongside market players all along. Following the diagnostic study, a local stakeholder committee was formed, coordinated by a development partner. Activities pursued include: financial education, product development, SACCO capacity building, as well as, more recently, regulatory reforms. Over time, the committee evolved to address specific topical needs. In this way, a SACCO sub-committee and an MFI sub-committee were formed. The key success factors include (i) the active/leading role by the supervisor; (ii) the supervisor's willingness to enter into discussion with industry and flexibility to accommodate pilots and bring about regulatory reforms to create scale in the microinsurance market; (iii) the response by industry; and (iv) the continued coordination role by the development partner.

Ghana

Ghana is one of the countries with the longest track-record in a microinsurance development process. What sets it apart from other countries is that there has been no coordinated stakeholder forum *per se*, but rather strong leadership by the regulator (which amongst others developed a regulatory framework for microinsurance), with on-going support from a development partner (GIZ), involving industry where relevant. The microinsurance country-level process originated when GIZ co-funded a microinsurance "mini-diagnostic" in 2008/9. The recommendations led to engagement with the National Insurance Commission (NIC) on various topics, over time spanning product development skills, IT and management information systems (MIS), awareness creation and actuarial skills.

Main activities to date have been: further research on supply and products, continued stakeholder dialogue through hosting of workshops on a topic-by-topic basis, conducting a study to assess actuarial capacity among relevant stakeholders, conducting a demand survey, as well as various consumer education initiatives. Furthermore, the NIC and GIZ, in partnership with the Munch Re Foundation, hosted a microinsurance conference in May 2012.

A key **lesson** has been that, in order to achieve success, not only is a regulatory framework needed that creates certainty: knowledge and access need to be increased on the consumer side, plus there must be a suite of products on the market that have value for the low-income market. This has called for, amongst others, consultative forums with industry, the involvement of the Ghana Insurance Association and the engagement of the actuarial association to for example provide pricing training.

The main **challenges** faced to date have been securing buy-in from the insurance companies by convincing them of the business case for microinsurance for the period up to which it becomes profitable. Another challenge has been that there were no early industry champions for microinsurance and no industry-wide committee/coordination beyond the topical industry meetings organised by the NIC.

Kenya

Kenya embarked on a coordinated microinsurance development process at the beginning of 2012. Like Ethiopia and Zambia, the process has its roots in the microinsurance diagnostic study completed in 2010. The Kenyan microinsurance market has been very active for a few years already, with a number of innovative partnerships and product pilots, as well as ample development partner involvement. In a sense, the supervisor has thus responded to market development, rather than the other way around as is the case in some other countries.

Despite a few *ad hoc* activities and working group meetings since the end of 2009, there was no concerted microinsurance stakeholder process in Kenya until the beginning of 2012, when the Access to Insurance Initiative partner ILO/UNCDF, along with Financial Sector Deepening Kenya (FSDK), appointed a local coordinator. Now, a working group has been set up. The key stakeholders in the working group are the supervisor (as chair), a number of insurers active in microinsurance, FSDK and other development partners. This working group initially adopted a few quick win activities and are now in the process of devising and implementing a long-term strategy.

Lessons: as the process so far has shown, a dedicated coordination function is needed to mobilise a joint action plan process and maintain momentum. It has been a challenge to get participants truly engaged and committed for the long run and to give them the tools to speak to the topic. However, a number of factors bode well for the success of the process, most notably the interest of the supervisor and industry (through its association). Furthermore, Kenya is characterised by a relatively high consumer awareness compared to peer countries and the pervasive M-Pesa network provides a ready payment system and potential distribution network for microinsurance. It has also created a “spirit of innovation” in the market, demonstrating to insurers that scale is possible in the low-income market.

Mozambique

Mozambique is still at the beginning of the road. The draft diagnostic report has been submitted and the stakeholder workshop held. Stakeholders are now refining an action plan to set the scene for the implementation process, including the development of two microinsurance pilots. It has been a fairly complex process from the start, highlighting the need for donor coordination, as well as coordination between different government departments. This stems from the unique history of the diagnostic, which underlines the importance of having the insurance supervisor on board from the start and balancing that with the momentum of the diagnostic which stems from a different government department (and how to navigate resulting political sensitivities). Box 14 illustrates:

Box 14. Origins of the Mozambican diagnostic

Traditionally, financial sector development partners in Mozambique have focused on microfinance. The 2009 FinScope survey findings, however, showed that there is very limited access to finance overall. In 2009, the UNDP/UNCDF together with the DNPDR (National Directorate for Promotion of Rural Development) developed BIFSMO (Building Inclusive Finance in Mozambique), a rural financial strategy focused on MFI activities. In 2010, the DNDPR asked the UNDP to conduct another study on microinsurance delivery through MFIs. The successful bidder suggested a broader suggested scope in line with the diagnostic methodology of the Initiative and also emphasised the role of the insurance supervisor.

The broadening of the scope required additional funders to be brought on board. The corresponding need for coordination led to several delays in getting the study off the ground. Further, as the DNDPR was the key counterpart, it was challenging to bring the insurance supervisor on board as a core part of the process from the start. This process coincided with a structural change within the supervisory entity itself. The study eventually kicked off in September 2011, with a focus on linking small MFI initiatives with commercial sector innovations.

Main **challenges** identified thus far include the lack of infrastructure in rural areas, as well as limited capacity and business models aimed at the mass retail market among insurers and a weak insurance association. More broadly, the challenge is to clarify the mandate and obtain buy-in across all relevant government agencies, plus to change the mindset within government and the development community at large, shifting from the traditional focus on credit/MFIs, to recognise the importance of savings and insurance for the rural sector. Another immediate challenge is to cement buy-in and set up coordination for the stakeholder process.

Nigeria

The Nigerian diagnostic kicked off in May 2012. Taking lessons from other countries on board, there has been an explicit focus on project design and securing the pre-commitment of the supervisor through a buy-in/kick-off mission several months before the launch of the study. In designing the project, the supervisor and funders are also thinking about implementation from the start. A likely challenge lies in engaging the private sector. Another, more immediate design challenge has been the quite lengthy procurement process of consultants (with funders having to adapt to the regulator's processes in the case of the local consultants), navigating decision-making processes in government and bringing on board the Ministry of Finance as policymaker.

Philippines

When the IAIS-CGAP Joint Working Group on Microinsurance started discussions to pursue a set of five case studies on the role of RSP in microinsurance in 2006/7, the Philippines was among the chosen five countries, for specific reasons:

The Philippines is one of only two countries (alongside India) where microinsurance regulations were already in place at the time. The unique "mutual benefit association" structure of the Philippines, in place since the 1970s, provided a vehicle for the formalisation of MFIs' insurance provision. The need to consider the enabling environment for microinsurance sprung from the Philippine National Strategy for Microfinance, which provided the general policy principles and direction in creating the enabling environment to provide the poor greater access to microfinance services, including microinsurance.

In 2006, the Insurance Commission in the Philippines launched a "National Microinsurance Month" to promote microinsurance and issued *Memorandum Circular 9/2006* that defined microinsurance and set out regulatory provisions for it. Specifically, it set lower capital requirements for MBAs dedicated to microinsurance and meeting certain requirements.

The 2008 microinsurance diagnostic study on the Philippines documented the policy "story" so far and highlighted a few challenges. These included the inconsistency in the regulation of so-called pre-need companies and cooperatives providing insurance informally and the need to broaden the microinsurance space to also encompass commercial insurers and intermediation. It also incorporated key stakeholders from the Insurance Commission and the National Credit Council of the Department of Finance in the engagement process. In this way, the diagnostic contributed to the subsequent local stakeholder-driven microinsurance developments in the Philippines even though it was not explicitly designed from the start to form the basis for such a process.

In January 2010 a *National Microinsurance Strategy* was launched. It coordinates the efforts of various stakeholders under the umbrella of the Department of Finance – National Credit Council and with support from GIZ-MIPPS and covers a range of activities. The strategy quotes four key objectives, from which all activities derive:

“a. Increased participation of the private sector in the provision of microinsurance services;

b. Establishment of an appropriate policy and regulatory environment for the safe and sound provision of microinsurance by the private sector;

c. Mainstreaming of informal insurance, insurance-like, and other similar activities/schemes; and

d. Institutionalization of financial literacy (learning/education) that will highlight the importance of microinsurance, the applicable rules and regulations, the duties and responsibilities of the providers, and the rights of the insured.”

A cornerstone of the subsequent implementation phase has been the adoption of a regulatory framework for microinsurance that has seen the issuance of several new *circulars* and *circular letters* to date, including on performance indicators and benchmarking, opening up the microinsurance distribution space, approval of training programmes for microinsurance agents, and incorporating previously informal activities (notably cooperatives and NGOs) into the insurance regulatory net. The latter involved explicit coordination between the Insurance Commission, the Securities and Exchange Commission, the Cooperative Development Authority and Bangko Sentral ng Pilipinas

The current development of a system for Alternative Dispute Resolution for Microinsurance will also be a milestone for the country.

Though implementation of the strategy is on-going, an important activity in the next, consolidation phase, will be to evaluate impact. Thus far, the Philippines process has been nimble and has used learning from past experience to proactively adapt the framework. It is expected that the new phase of learning will continue this trend.

The role of the regulator. The Insurance Commission has been a key stakeholder and driver throughout the process, alongside active participation by industry and continued development partner support/coordination. Here, also, the diagnostic played a role. The diagnostic consultants became key drivers of the subsequent strategy process and met with the supervisor before the study started to have preliminary discussions and obtain buy-in. This was followed by another meeting when the study was some way progressed to share the "skeleton" of emerging findings. The supervisor was then involved in the cross-country findings synthesis workshop in Germany in 2008 and generally kept on board. This, along with the pre-existing interest in microinsurance within the insurance commission, made it easy to involve the supervisor as co-player in the subsequent national strategy and regulatory reform process. This emphasises the importance of supervisory engagement throughout the process.

The role of the diagnostic. Many of the elements of the national strategy adopted and new insurance circulars issued in recent years speak to diagnostic findings and recommendations. The main factors ensuring this impact were:

1) The consultants used for the diagnostic knew the local context and were existing role players; they could therefore be active participants in the subsequent process. The lesson is therefore the importance of continuity and using local capacity.

2) The consultants saw the diagnostic report as the start of a strategy and reform process, rather than as the end of a consulting contract. This relates strongly to the fact that the consultants used were also role players in the broader process.

South Africa

The South African National Treasury published a *Microinsurance Policy Document* in July 2011. This represented the culmination of several years of studies and consultations to devise a microinsurance regulatory framework that originally had its origins in concerns about consumer abuse in the informal funeral insurance market. It was subsequently broadened to include microinsurance at large in recognition of the important role it can play in the South African low-income market. The regulatory process is still on-going. The National Treasury (as policymaker) formed various working groups with the Financial Services Board (FSB) as non-bank supervisor and industry representatives to interrogate and flesh out the proposals in each of the thematic areas of the policy document. By mid-2012, the working groups had completed their consultations and each submitted a report to the National Steering Committee. The next step is the drafting of legislation, with implementation of the microinsurance regime expected by 2014.

The microinsurance regulatory framework will permit the licensing of a new category of insurers to provide only microinsurance products. Microinsurance will be defined in terms of a range of product parameters including benefit and contract term limits, as well as a range of requirements aimed at ensuring simple, easy to understand products in line with the realities of the low-income target market. In line with the lower risk characteristics built into the definition of microinsurance, the restricted microinsurance licence will provide for a simpler solvency regime and proportionate market conduct requirements particularly on distribution.

Apart from the regulatory process, there has been no concerted microinsurance stakeholder process in South Africa. However, as mentioned, government has followed a consultative approach involving industry and other stakeholders in each step of the way. Furthermore, the industry associations have played a strong role in the development of the microinsurance market through various consumer education and product standard initiatives as referred to in the main document.

Swaziland

The Swaziland microinsurance diagnostic was completed in late 2011. What sets it apart from other diagnostic studies is that it was directly commissioned and majority-funded by the insurance regulatory authority, the Office of the Registrar of Insurance and Retirement Funds (RIRF) itself. This means that the supervisor has been in the driving seat all along. Though the

Ministry of Finance has no explicit financial inclusion policy, there is implicit support for financial inclusion through various initiatives and the RIRF has submitted the diagnostic report to the Minister of Finance. RIRF has already started to take the diagnostic recommendations on board by building provisions for microinsurance into its new insurance Bill.

Following the presentation of the diagnostic findings at a stakeholder workshop in 2011, another stakeholder meeting was convened by RIRF in February 2012 where the implementation process was discussed. There was broad agreement on the need for a coordinated platform for engagement between industry, the supervisor and other stakeholders (made all the more necessary in the absence of an industry association). The RIRF proposed to coordinate such a process and start off by convening quarterly microinsurance forums. There is now need for further strategizing in this regard, including on the need for the appointment of a local coordinator to drive the process.

The main **challenges** identified so far are the absence of an industry association and the need to build regulatory capacity and incentivise market players.

Tanzania

Like Nigeria, the diagnostic in Tanzania kicked off in May 2012, following a buy-in/inception mission in April 2012. The on the ground presence of Financial Sector Deepening Trust Tanzania (FSDT) as co-funder and coordinator between stakeholders, the fact that the Ministry of Finance as policymaker has officially endorsed the study, as well as the commitment upfront by the insurance commissioner and the agreement of the Tanzanian Insurance Regulatory Authority (TIRA) to chair the steering committee for the on-going implementation process all bode well for the stakeholder process. The kick-off phase was used to ensure that the supervisor and other stakeholders understand the diagnostic as the first step in a microinsurance stakeholder process, rather than the culmination of the project. This was further cemented during the stakeholder workshop in September 2012 where the diagnostic findings were presented and the supervisor reconfirmed his commitment to the process. It is important to take the lessons from the other countries on board in terms of the pitfalls to avoid going forward and ensuring momentum.

Zambia

Zambia is one of the microinsurance stakeholder process pioneers alongside Ethiopia. The funders, ILO/UNCDF and FinMark Trust, envisaged a stakeholder process as part of the diagnostic outcomes and used the stakeholder workshop to create buy-in from the regulator, industry and other stakeholders to the process. Soon after a “technical advisory group” (TAG) was formed with representation from the insurance and broker industries (through their associations), the microfinance industry, the bankers’ association, the Pensions and Insurance Authority, the Ministry of Finance and the Bank of Zambia. Others such as the Ministry of Labour have subsequently joined. The TAG set about to (i) appoint a coordinator (funded by the ILO and FinMark Trust) and then (ii) develop and adopt an action plan. Since then, it has focused on implementing the action plan through a number of activities, including a dedicated aggregator landscape study and supplier capacity assessment in microinsurance, as well as several microinsurance seminars and training courses, inputs on regulatory reforms and, most recently, the launch of a competitive grant fund, the Microinsurance Acceleration Facility (MAF) to trigger microinsurance investments.

It was decided as part of the action plan to only implement consumer education activities once there is a sufficient product suite available to the low-income market. Hence the first phrase of engagement focused on the supply-side and a consumer education strategy is in the process of being developed.

Box 15 outlines some of the activities pursued, in partnership with FinMark Trust, the ILO and UNCDF:

Box 15. Zambia case study: example activities

The main aspects of the action plan adopted by the TAG in Zambia and implemented to date have been:

1. **Demand**: exploring FinScope insights further in order to understand market opportunities. Actual awareness creation activities were only planned as part of the second phase once there were products available on the market to educate consumers on.
2. **Supply**: a study was commissioned to understand the scope for health insurance and a detailed supplier capacity assessment was conducted for each insurer to assess their "readiness" for microinsurance, leading to the development of a capacity assessment toolkit and on-going engagement with individual insurers. At an industry-wide level, an aggregator study was commissioned to better understand the landscape, interest and capacity of potential aggregators for distribution purposes, followed by a study specifically considering the agriculture value chain and brokering potential partnerships between insurers and agricultural organisations. Since the beginning of 2010, a few workshops were held where innovative case studies from elsewhere were shared with industry and regulatory proposals were workshopped. In 2011, a two-day capacity building training on the product development cycle was provided (speaking to the gaps identified in the capacity assessment). In parallel, there was also a small microinsurance pilot funded by the development partners in order to generate learning. Towards the end of 2011, a dedicated "Microinsurance Acceleration Facility" (MAF) was launched to provide competitive grants to trigger product development and partnerships. Finally, in 2012, two training courses were hosted: one on microinsurance business planning and one on partnership management.
3. **Regulation**: The first step on the regulatory side was for the TAG to form a sub-committee on regulation (on which the Pensions and Insurance Authority – PIA – is represented) to review the diagnostic recommendations and further identify regulatory issues, plus develop proposals for regulatory reform. Subsequently, the PIA applied to the FIRST Initiative for funding for regulatory reforms.

The Zambian microinsurance development process highlights a number of **lessons** for other countries:

- The creation of the action plan upfront has meant that there has been a logical flow to the process, rather than just a haphazard set of activities pursued without strategic design. At the same time, they have allowed the plan to be relatively fluid, adding aspects as they come along.
- Another key success factor was the commitment upfront of the insurance supervisor and its willingness to participate in the process. The fact that government is pursuing a broader financial inclusion agenda through the Financial Sector Development Plan (FSDP) has meant that the TAG process has found a home in a broader government commitment to financial inclusion. At the same time, one of the key success factors has been that the TAG process was deliberately set up to not be incorporated formally into the bureaucracy of the FSDP, so as to enable a fluid process where quick decisions can be taken and activities can be implemented at committee members' discretion.
- The fact that the momentum has been maintained over a period of almost three years can be ascribed to the appointment of an independent coordinator as well as the continued on the ground presence and involvement of one of the funding partners,

FinMark Trust. However, fundraising remains a challenge. Equally challenging has been the convincing of insurers of the business case for insurance to the point where they actually started to make microinsurance investments. Three years down the line, patience has paid off, with a number of recently launched microinsurance offerings now on the market and more in the pipeline.

- Another lesson is the importance of establishing a baseline and set indicators and targets for monitoring and evaluation purposes from the start. This was not built into the Zambian process upfront.

Appendix 2: Coordinator job description example from Zambia

1. Develop annual work plans and budgets for project activities based on the Microinsurance Action Plan for Zambia and recommendations of the Technical Advisory Group (TAG)[78].

2. In collaboration with the TAG, initiate and plan microinsurance implementation strategy including but not limited to product development, distribution networks, education and awareness, cooperation mechanisms between the microinsurance value chain (PIA, insurers, microfinance institutions, cooperatives, trade unions, various marketers and distributors, social and community groups, funeral societies, etc.).

3. Identify potential funding sources for projects in the microinsurance development process for Zambia; raise funds for project activities in annual work plans.

4. Identify particular project possibilities in relation to expressed needs and the known capabilities and resources available; assess the relative feasibility and impact of proposed projects.

5. Identify project implementation problems and propose corrective actions.

6. Prepare project status and implementation reports on a monthly basis.

7. Participate in field missions; advise and guide institutions and/or other partners in order to achieve programme objectives.

8. Coordinate meetings of the TAG, and prepare minutes and reports thereof.

9. Coordinate the organisation of meetings, workshops and seminars.

10. Maintain good relations and develop cooperation with key international stakeholders.

11. Develop and maintain a performance monitoring system and maintain related performance indicator database.

12. Compile a report on microinsurance implementation progress, and analyse results to identify emerging lessons and good practices.

13. Facilitate information sharing within the microinsurance community in-country.

14. Liaise with other coordinators at a regional level.

15. Carry out any related assignments requested by the TAG.

16. Coordinate and manage the Microinsurance Acceleration Facility, a matching grant innovation fund (process and knowledge management).

17. Produce thematic focus microinsurance notes on emerging lessons and results of the microinsurance development process in Zambia.

[78] The name given to the microinsurance stakeholder committee in Zambia.

Appendix 3: Typical regulatory challenges and recommendations across diagnostics

Category	Challenges/issues/opportunities	Corresponding recommendations
Prudential (including product) regulation	Inconsistencies or gaps in definitions create confusion[79] or lead to regulatory arbitrage or an uneven playing field.[80]	Clarify definitions contained in insurance legislation where necessary.
	Some shared MI product features emerge across countries (group pricing, sum assured, low benefit/premium, short-term, emphasis on simplicity) that facilitate common regulatory rceommendations.	Define a MI product category (where diagnostic shows this to be necessary): • Define MI conceptually to align sector policies and efforts along a central understanding of what it entails. • If need for dedicated MI space, can define parameters informed *by* risk characteristics. • To facilitate market development, ensure definition is as broad as possible in terms of who is covered and set quantitative limits carefully (if any). Inform quantitative aspects (notably benefit limits) by actuarial modelling.
	Strict demarcation between life and non-life undermine bundling in the MI sphere[81]; where composites are allowed, this has helped shape the MImarket[82].	When defining MI, consider allowing it to cross demarcation divide if definition ensures common risk characteristics.
	Absence of health insurance-specific regulation creates uncertainty and an uneven playing field[83].	Reconsider health regulatory framework and position of health in insurance legislation.
	Strict demarcation between health and other types of insurance may undermine development of a MI solution for health[84].alternatively, it can create interesting alternatives in the life space e.g. hospitalisation, maternity, dread disease triggers.	Explicitly consider health as part of MI definition process.

[79] E.g. Mongolia, Swaziland, Zambia
[80] E.g. excluding funeral in-kind: Colombia, Brazil, Kenya; previous lack of insurance jurisdiction over in-house underwriting by cooperatives and pre-need companies in Philippines – addressed in 2010 circular
[81] E.g. SA, Zambia, Swaziland, Kenya, Mongolia
[82]E.g. Colombia, Brazil. A number of countries are now crossing the demarcation divide, or have plans to do so (e.g. Philippines, Brazil, SA, Mozambique).
[83]E.g. Kenya, Zambia, Swaziland, Uganda, where some players operate outside of regulatory net.
[84] E.g. SA, Brazil

Category	Challenges/issues/opportunities	Corresponding recommendations
	High prudential requirements form a barrier to entry and raise cost of operation.[85]	Tailor prudential regulation to the risk character of MI. Recognise that different sub-sectors require different incentives and approach (e.g. existing commercial insurers, start-ups, community-based/mutual entities, informal providers).
	Tiering and graduation of capital over time presents an opportunity for MI development and formalisation[86], but must be based on risk and entail licence restrictions for lower tiers, otherwise it can create an uneven playing field.	• Based on the country context (in terms of supervisory capacity, size of informal market and the characteristics of microinsurance products on the market, the diagnostic may recommend the creation of a new prudential tier. • Where a separate prudential tier is created, inform capital and reserving requirements for MI by actuarial modelling. • Lower actuarial requirements for MI. • Provide a path towards formalisation so that entities and activities that currently operate outside of the insurance regulatory net are incorporated under insurance regulation and supervision.
Institutional	Where no institutional space for mutual structures in insurance provision, it forms a regulatory barrier. The extent of the barrier depends on whether there are potential "takers" of a licence in the mutual sphere.[87]	• Allow MI underwriting by multiple entities (including opening the space up to mutual and other entities where necessary). • Coordinate with other authorities that are the institutional supervisors of entities providing insurance.
	Corporate governance standards for entities currently outside of the insurance regulatory net are often lacking.	Ensure consistent level of corporate governance for all providers of MI, be they corporate or mutual.
Market conduct	Onerous intermediation regulation (e.g. in terms of registration and fit and proper requirements) has transaction cost impact[88], can change dynamics in the market.	• Create a flexible regime for the distribution of MI. • Consider lighter training requirements for microinsurance intermediaries in line with the restricted product suite that they may sell.[89]
	In a life vs. non-life demarcated regime, limiting an agent to an agreement with only one insurer is a barrier to microinsurance distribution.	Open up agency/aggregator distribution to more than one insurer per agent.

[85] E.g. India – intentionally high, Kenya increasing; Swaziland & Philippines have existing 2nd tier with lower prudential requirements
[86] E.g. Philippines, SA, Brazil
[87] E.g. in Brazil, Zambia, not identified as large barrier; in SA, Ethiopia, Kenya, Uganda, Swaziland it was seen as a barrier.
[88] E.g. South Africa
[89] E.g. Brazil, Mongolia, India, Philippines

Category	Challenges/issues/opportunities	Corresponding recommendations
	Regulation mostly does not yet allow intermediary categories other than brokers and agents, or for administration, outsourcing and other non-traditional intermediation functions.[90]	• Incorporate a variety of channels, not just brokers and agents, and explicitly allow direct & aggregator distribution. • Broaden the functions that can be performed by third parties/intermediaries, including administration and underwriting management, with appropriate regulation.
	Commission/price caps may not be desirable or effective[91].	Avoid restrictive commission caps in recognition of the fact that low microinsurance premiums may require higher distribution costs to ensure viable sales.
	The insurance sales process is often not yet directly regulated, insurers responsible for agent training, accountable for agent actions[92].	Instead of regulating the sales process directly, find alternative ways to prevent abuse and ensure informed consumers, especially where there are large compulsory microinsurance markets, e.g. implement a code of conduct for MI intermediaries.
General/ancillary	Improvements to the overall insurance regime may promote microinsurance without a specific microinsurance regime[93]being implemented and the absence of microinsurance-specific regulation does not necessarily hamper market development if overall regulatory burden is not experienced as onerous[94].	Ensure consistency in regulatory framework, remove grey areas and clarify. Definitions[95].
	Market-following/test and learn approach to regulation can facilitate innovation[96]. The flipside may be *ad hoc* regulation, lack of level playing field.[97]	Explicitly allow innovation, but ensure a level playing field as far as possible.
	Insurance regulation modernisation/ international standards alignment processes embarked on without explicitly taking development angle/MI or compliance cost/burden into account, may inadvertently raise barriers[98] the flipside is that insurance	Explicitly foresee the impact of modernisation of regulation and alignment with international standards on market development and design a proportionate approach.

[90]E.g. India, Kenya, Zambia, Swaziland, Mongolia. Who is allowed to distribute can be an important challenge or opportunity (e.g. no agents Brazil, Colombia explicit direct distribution space, need for broader aggregator space and roles in Zambia, Swaziland, Uganda, Mongolia; banks' and NBFIs' intermediation function restricted in Mongolia, bancassurance limited in Uganda, Kenya)

[91]E.g. SA, Kenya, Uganda; some starting to lift commission regulation for MI, e.g. Mozambique, SA proposal, higher commissions for MI in India. Alternative ways are needed to prevent exploitative practices (e.g. in Brazil, a microinsurance correspondent space is being created to the balance of power between large distribution channels such as utilities and retailers and insurers).

[92] E.g. Colombia, Brazil, Mozambique

[93] E.g. Mongolia

[94] E.g. Colombia

[95]E.g. Zambia, Swaziland

[96] E.g. Philippines, Ghana, Zambia, Mozambique, Kenya

[97]e.g. Zambia, Kenya, Mozambique

[98]E.g. Kenya, Botswana, Brazil initially in terms of solvency requirements

Category	Challenges/issues/opportunities	Corresponding recommendations
	regulatory reform/modernisation process is an opportunity to incorporate microinsurance.[99]	
	Local investment, ownership or staff requirements may shape industry structure and impact on microinsurance investment decisions.[100]	Critically assess the impact of local investment, ownership and staff requirements on market development and assess it relative to political economy goals.
	Barriers imposed in non-insurance regulation undermine microinsurance development (e.g. AML/CFT, tax, or payment system/electronic contracting constraints).	Coordinate with supervisors responsible for ancillary regulation (e.g. payment systems, AML/CFT or tax) to ensure impact on microinsurance is minimised and make use of scope for a risk-based approach in other regulation (e.g. AML/CFT) to carve out a space for microinsurance.

[99] E.g. Ghana, Ethiopia, Mozambique, Swaziland
[100] E.g. India, Mongolia, Swaziland, Zambia

Access to Insurance Initiative
Hosted by GIZ Sector Project Financial Systems
Approaches to Insurance
Gesellschaft für Internationale
Zusammenarbeit (GIZ) GmbH
Dag-Hammarskjöld-Weg 1-5
65760 Eschborn, Germany

Telephone: +49 61 96 79-1362
Fax: +49 61 96 79-80 1362
Email: secretariat@a2ii.org
Internet: www.a2ii.org

The Initiative is a partnership between:

Hosted by: