



access to insurance initiative

Encouraging access to insurance in Peru: Reshaping the insurance environment for the underserved and unserved population

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Contents

Abbreviations	v
Acknowledgments	vii
Executive summary.....	viii
1. Introduction.....	1
Methodology	1
Structure.....	2
Definitions and analytical framework.....	2
What is microinsurance?.....	3
What is the target market of microinsurance in Peru?.....	4
2. Context	6
Macro and socioeconomic context.....	6
Financial and microfinance sector context	11
3. Understanding the microinsurance consumer	14
Risk perception and experience	14
Coping mechanisms	16
Expenditure priorities	18
Awareness and perceptions of insurance and of insurance companies.....	18
Factors that affect the demand for insurance products	20
4. Supply of insurance products to segments C, D, and E.....	21
Insurance context	21
Type of insurance products	22
Premium growth in certain product lines	24
Insurance products accessible to segments C, D, and E	24
Products registered as microinsurance products with the SBS.....	25
Other voluntary and “mandatory” insurance products reading segments C, D, and E	25
Risk carriers	27
Insurance companies	27
Other risk carriers	29
Distribution.....	30
Direct sales	30
Third-party distribution.....	31
Microfinance institutions.....	32
Saving and credit cooperatives	33
Non-banking agents	33
Alternative distribution channels.....	34
Insurance brokers.....	37
Characteristics of microinsurance products in Peru	38
Credit life insurance	38
Accident, life, and funeral insurance.....	40
Nonlife insurance products	40

Health insurance	40
SOAT	41
Agricultural insurance	41
Unemployment insurance	42
Take-up.....	42
5. Policy, Supervision, and Regulation	44
Policy.....	44
Supervision	45
Regulation	47
Regulation applicable to microinsurance.....	47
Licensing and prudential requirements of risk carriers	49
Product rules.....	49
Distribution.....	50
Market conduct rules	53
Precontractual stage	53
Contractual stage	55
Complaints handling and dispute resolution	60
6. Findings	63
Overview	63
Demand.....	65
Supply.....	67
Supervision	70
Regulation	70
7. Recommendations.....	72
Increasing the registration of products as microinsurance.....	72
Improving the distribution of microinsurance	75
Improving the offer of products	76
Improving demand and take-up	77
Encouraging a more efficient and responsible microinsurance market	78
References.....	81
Annex 1. Government social programs.....	85
Annex 2. List of interviews	87
Annex 3. Insurance products offered to segments C and D in Peru	88
Annex 4. Promising microinsurance models and products.....	92
Annex 5. The Peruvian Government’s Financial Strategies	94
The financial inclusion strategy	94
The financial culture strategy	94
Annex 6. Microinsurance marketers.....	96
Annex 7. The debate on microinsurance in the APESEG	97

Boxes

Box 1. Non-banking agents in Peru.....	34
Box 2. Is credit life insurance mandatory or not?	39
Box 3. The experience of Serviperú	49
Box 4. Methods available to insurance brokers to intermediate insurance contracts.....	51
Box 5. Responsibilities and obligations of insurance companies when using financial institutions, insurance promoters, and marketers.....	52
Box 6. Issues that require SBS approval.....	56
Box 7. Summary of the cover	57
Box 8. Potential of mobile money in microinsurance in Peru.....	59
Box 9. The register of life insurance and civil liability insurance contracts	59
Box 10. Minimum requirements for dispute resolution mechanisms according to the SBS	61

Figures

Figure 1. Target market for microinsurance in Peru.....	5
Figure 2. Regional map of Peru	6
Figure 3. Poverty in Peru, 2003–12	8
Figure 4. Distribution of population	8
Figure 5. MFIs in Peru, by type of supervision	12
Figure 6. Graphic representation of the risk experience of FGD respondents in segments C and D	16
Figure 7. Insurance awareness	19
Figure 8. How much do you trust insurance companies?	19
Figure 9. Level of importance in the decision to purchase insurance (%)	20
Figure 10. Premium growth and insurance penetration, 2012	21
Figure 11. Insurance penetration and GDP growth, 2006–12.....	21
Figure 12. Share of premiums, by product line, 2010–13.....	22
Figure 13. Growth of insurance, by product line, 2006–12	22
Figure 14. Growth of general insurance products, 2006–12	23
Figure 15. Growth of insurance products related to the PPS, 2006–12	23
Figure 16. Growth of life insurance products, 2006–12	24
Figure 17. Microinsurance market in Peru.....	25
Figure 18. Registration of microinsurance products, 2007–11	26
Figure 19. Concentration of Peruvian insurance market, by company, 2003–13	27
Figure 20. Share of microinsurance market, by number of subscribers	28
Figure 21. Number of insurance products accessible to segments C, D, and E	29
Figure 22. Percentage of insured people covered by an insurance product registered as microinsurance with the SBS, by insurance company	29
Figure 23. Channels used to distribute insurance products to segments C, D, and E (% of insurance products offered to segments C, D, and E)	30
Figure 24. Index of administrative management per insurance company	31
Figure 25. Size of MFIs, by number of clients.....	32
Figure 26. Number of banking agents, 2007–12	34
Figure 27. Pharmacies model	35
Figure 28. Utility companies model	36
Figure 29. Municipalities model	36
Figure 30. Associations and boards of rural irrigation model	37
Figure 31. Insurance products offered to segments C, D, and E (% of insurance products offered to segments C, D, and E)	38
Figure 32. Growth of premiums and claims for credit life insurance, 2006–12	38
Figure 33. The path from basic to more sophisticated insurance products for segments C, D, and E	39
Figure 34. Nonlife insurance products offered to segments C, D, and E (% of insured people)	40
Figure 35. Public-private partnership for SAC	41
Figure 36. Top 10 products, by number of subscribers	42

Figure 37. Insurance products to segments C, D, and E, by number of subscribers	43
Figure 38. Distribution of insurance products.....	50
Figure 39. Stages of the microinsurance contract	54
Figure 40. Distant selling.....	55

Tables

Table 1. Comparison of the IMASEN and Datum studies	2
Table 2. Share of the population covered by health insurance schemes, 2000–13	10
Table 3. Event that would have a greater impact on the household, by socioeconomic level	14
Table 4. The event that would have a greater impact on the household, by region, for all socioeconomic levels.....	15
Table 5. The event that would have a greater impact on the household, by region, for socioeconomic levels C and D	15
Table 6. The event most likely to occur in the household, by region, for all socioeconomic levels	15
Table 7. Top six risks ranked by severity and probability	16
Table 8. Activity sector, by socioeconomic segment	26
Table 9. Insurance companies offering microinsurance.....	27
Table 10. Categories of MFIs.....	33
Table 11. SBS statutory objectives	46
Table 12. Relevant regulation for the study	47
Table 13. Other applicable regulation to microinsurance	48
Table 14. Marketing requirements	54
Table 15. Simplified policy vs. policies in conventional and mass insurance	58

Abbreviations

A2ii	Access to Insurance Initiative
ACP	Community Action of Peru
AFI	Alliance for Financial Inclusion
AFP	Pension fund administrator
APECOSE	Peruvian Association of Insurance Brokers (Asociación Peruana de Corredores de Seguros)
APEIM	Peruvian Association of Market Research Companies (Asociación Peruana de Empresas de Investigación de Mercado)
APESEG	Peruvian Association of Insurance Companies (Asociación Peruana de Empresas de Seguros)
ASBANC	Peruvian Banking Association
ASOMIF	Association of Microfinance Institutions (Asociación de Microfinanzas)
BCR	Central Bank (Banco Central de la Reserva)
CAC	Saving and credit cooperatives (<i>cooperativas de ahorro y crédito</i>)
CENFRI	Centre for Financial Inclusion and Regulation
CMAC	Municipal saving and credit unions (<i>cajas municipales de ahorro y crédito</i>)
COFIDE	Financial Development Corporation (Corporación Financiera de Desarrollo)
COPEME	Consortium of Private Organizations Promoting the Development of Micro and Small Enterprises (Consortio de Organizaciones Privadas de Promoción al Desarrollo de la Micro y Pequeña Empresa)
CRAC	Rural saving and credit banks (<i>cajas rurales de ahorro y crédito</i>)
EDELNOR	Electricity Distribution Company of North Lima (Empresa de Distribución Eléctrica de Lima Norte)
EDPYMES	Entities for the development and promotion of the small and medium-size companies (<i>entidades de desarrollo de la pequeña y micro empresa</i>)
ENAHO	National Survey of Households
EPS	Health care provider (<i>empresas promotoras de salud</i>)
ESEG	School of Insurance (Escuela de Seguros)
EsSalud	Social Health Insurance system (Seguro Social de Salud)
FCP	Financial Culture Plan
FENACREP	National Federation of Saving and Credit Cooperatives of Peru (Federación Nacional de Cooperativas de Ahorro y Crédito de Perú)
FEPCCMAC	Peruvian Federation of Municipal Saving and Credit Accounts (Federación Peruana de Cajas Municipales de Ahorro y Crédito)
FGD	Focus group discussion
FIDES	Inter-American Federation of Insurance Companies
FLUHI	Framework Law on Universal Health Insurance
FOGASA	Wages Guarantee Fund (Fondo de Garantía Salarial)
FOMIN	Multilateral Investment Fund (Fondo Multilateral de Inversiones)
GDP	Gross domestic product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GLFIS	General Law of Financial and Insurance Services
IADB	Inter-American Development Bank
IEP	Institute of Peruvian Studies (Instituto de Estudios de Perú)
IFC	International Finance Corporation
IMF	International Monetary Fund
INDECOPI	National Institute for the Defense of Consumers and Intellectual Property (Instituto Nacional de Defensa del Consumidor y de Propiedad Intelectual)
INEI	National Institute of Statistics and Informatics
JNUDRP	Junta Nacional de Usuarios de los Distritos de Riego del Perú

MERCOSUR	Southern Common Market (El Mercado Común del Sur)
MEF	Ministry of Economy and Finance
MFI	Microfinance institution
MIDIS	Ministry of Development and Social Inclusion (Ministerio de Desarrollo e Inclusión Social)
MINAGRI	Ministry of Agriculture and Irrigation (Ministerio de Agricultura y Riego)
NBA	Non-banking agent
NGO	Nongovernmental organization
NSH	National Superintendence of Health
OECD	Organisation for Economic Co-operation and Development
OSINERGIMIN	Supervisor of Companies Providing Electricity and Gas Services
OSIPTEL	Supervisory Agency for Private Investment in Telecommunications
PPP	Public-private partnership
PGN	Peruana de Gas Natural
PPS	Private pension scheme
PROMUC	Promotion of Women and the Community (Promoción de la Mujer y la Comunidad)
SAC	Catastrophic agricultural insurance (<i>seguro agrícola catastrófico</i>)
SBS	Superintendence of Banking and Insurance (Superintendencia de Banca, Seguros y AFP)
SCTR	Complementary workers' compensation insurance (<i>seguro complementario de trabajo riesgo</i>)
SIS	Integral Health Insurance system (<i>Seguro Integral de Salud</i>)
SNP	National Pension System (Sistema Nacional de Pensiones)
SOAT	Mandatory insurance for traffic accidents (<i>seguro obligatorio de tránsito</i>)
SPP	Private pension system
SUNASA	Supervisor of institutions providing health care (Superintendencia Nacional de Aseguramiento de Salud)
SUNASS	Supervisor of companies providing domestic water and sewage services
SUNAT	National Superintendence of Tax Management
UNHCR	United Nations High Commissioner for Refugees
UNICA	Credit and savings associations (<i>uniones de crédito y ahorro</i>)
VAT	Value-added tax

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Executive summary

Peru is a striking microfinance success story, this success is reflected in the way that its microinsurance market is constantly growing and innovating. The financial supervisory authority has played a central role in this development by focusing on the need to promote access to insurance among the unserved and underserved population, who generally make up the low-income population in Peru. Indeed, the Superintendence of Banking and Insurance (SBS, Superintendencia de Banca, Seguros y AFP) approved its first Microinsurance Resolution in 2007 and revised it in 2009, highlighting the need to promote access to insurance.

Yet only 600,000 people are insured by a microinsurance product registered under Peru's Microinsurance Resolution.¹ Peru has very low uptake of microinsurance products, despite concerted efforts to promote microinsurance. Microfinance is a powerful tool for confronting risks. Given the extreme risks to which a large proportion of Peruvians are exposed, microinsurance clearly has not reached its potential.

If we do not limit ourselves only to products that are registered with the SBS as microinsurance, we find that a wide range of insurance products are offered to segments C, D, and E: (i) insurance products that are registered as microinsurance products with the SBS; (ii) mass insurance products that are distributed by microfinance institutions (MFIs); (iii) products that are mandatory by law; (iv) mass insurance products that are distributed through alternative distribution channels; (v) informal insurance that is provided to segments C, D, and E; and (vi) insurance products that are offered to segments C, D, and E by the government (or with government involvement). Under this broader definition, 172 products can be considered microinsurance in the wider sense. This compares with only 40 products that are actually registered as microinsurance products with the SBS under the Microinsurance Resolution.

Therefore, many more people are insured by a microinsurance product than first meets the eye. Approximately 6.1 million people are covered by some sort of microinsurance product.² The actual target market of microinsurance is approximately 15.3 million people (segments C and D), which represents 50% of the total population. In addition, 11.6 million people (segment E), or 38% of the total population, are the potential target market. Therefore, only 27% of the actual and potential target market is currently covered by a microinsurance product, leaving approximately 16 million people with no insurance.

The Peruvian microinsurance market is growing and starting to diversify. There is an increasing trend to explore and innovate with alternative distribution channels. Credit life is the most offered product and a platform for launching more sophisticated products. However, voluntary products have a similar market share, such as life, accident, funeral insurance, and even some general insurance products, such as multi-risk insurance, that provide cover against fire, earthquake, theft, assault, and burglary.

Nevertheless, much remains to be done to reach and serve the needs of population segments C, D, and E in Peru. Four issues need immediate intervention.

First, regulatory arbitrage is rendering the microinsurance regulation ineffective. Insurance companies prefer to register their products with the SBS as mass insurance products instead of as microinsurance products, because the former regulation allows them to use different entities as distribution channels and does not establish payout deadlines or require them to include only "minimum exclusions" (as the

¹ We refer to "insured people" and not policyholders, as the SBS accounts for insured parties rather than policyholders. Policyholders are those who enter into a contract with the insurer. Even though the policyholder may also be the insured party, the latter could be another party, in particular, in group insurance. In addition, the insured party or the policyholder may be a different person from the beneficiary (who receives the compensation or benefit from the product).

² There is a margin of error with this figure, given that we cannot be sure that all such consumers fall within segments C, D, and E and the same person may have multiple insurance products. However, the methodology that we use is based on the principle that the products targeted at those segments should be included. Indeed, our suggested figure is close to the one recently proposed by McCord, Jaleran, and Ingram (2013), which counted 5.3 million insured people in the low-income bracket.

microinsurance regulation does). Therefore, the regulatory framework created to promote and encourage a “responsible” microinsurance market is rarely applicable.

Second, only a few insurance companies are innovating, not only by using new distribution channels that are allowed by the regulation, but also by designing and implementing insurance products that effectively tap the needs of segments C, D, and E.

Third, providers are concerned about dealing with the dominant position of some distribution channels that are charging excessive commissions. This practice continues, owing to the weak bargaining power of insurance companies. This is leading to a sharp focus on distribution channels rather than on the needs and concerns of consumers.

Fourth, the lack of products with value in the market is perpetuating a lack of trust in insurance companies among segments C, D, and E, which also lack awareness of the role that insurance products could play in managing their risks.

Improvements in the microinsurance regulations could facilitate development of the microinsurance market in Peru, notably by removing barriers that are deterring insurance companies from registering their products as microinsurance with the SBS. In addition, new incentives could be introduced to encourage the development of a responsible microinsurance market and measures to protect microinsurance consumers.

We strongly recommend that *all insurance products targeted at segments C, D, and E should have to be registered as microinsurance with the SBS*. The Microinsurance Resolution raised awareness about the particularities of microinsurance, introduced the idea of promoting access to insurance for the underserved and unserved, under appropriate market conduct rules, and introduced market conduct rules, which are essential to garnering trust in insurance companies and creating a positive attitude toward insurance.

To promote the development of a responsible microinsurance market in Peru, we recommend the following:

- Adopt a concrete operational definition of microinsurance
- Build a stronger case for the microinsurance marketer to ensure that it is preferred to the marketer of mass insurance
- Recognize the role that community bonds could play in the distribution of insurance products
- Encourage the use of insurance promoters for the distribution of microinsurance products
- Pass a regulation allowing non-banking agents (NBAs) to distribute microinsurance products
- Speed up the product registration process and reduce administrative costs
- Repeal the provision regarding exclusions and co-payments while encouraging self-regulation
- Ensure that simplified policies and individual certificates are similar to summary covers
- Decrease regulatory arbitrage by enforcing regulations in mass insurance
- Create a “microinsurance logo” tied to indicators of performance for microinsurance
- Create a sanction regime for microinsurance, balanced with sanctions in other insurance areas.

In addition to reform of the Microinsurance Resolution, we present four sets of recommendations that aim to (i) promote the innovation of distribution channels; (ii) incentivize insurers to serve segments C, D, and E; (iii) facilitate transactions while ensuring consumer protection; (iv) improve the offer of products; (v) encourage demand; and (vi) promote a more efficient and responsible microinsurance market. These recommendations are intended for all participants in the microinsurance value chain.

By implementing these recommendations in the context of ongoing dialogue between interested parties, it will be possible to tap the unserved and underserved population in Peru and to take advantage of the positive economic and social conditions of the country. Peru has one of the lowest penetration of insurance

as a percentage of gross domestic product (GDP) in Latin America (1.5% of total GDP in 2012), providing ample opportunities for growth.

1. Introduction

This diagnostic is part of the project Implementation of Regulatory and Supervisory Standards in Microinsurance Markets in Latin America, which seeks to increase the availability of sustainable microinsurance products, adapted to the needs of the low-income population in the region. A collaboration among the insurance supervisory authorities in Colombia, Jamaica, and Peru, the project aims to enable insurance regulators and supervisors in the region to facilitate an adequate private sector framework for the efficient and effective supply of microinsurance products by adopting and implementing suitable regulatory, supervisory, and policy frameworks.

The project has three components. First, undertake a country diagnostic and to engage stakeholders in a public-private dialogue using the methodology of the Access to Insurance Initiative (A2ii; Bester, Chamberlain, and Hougaard 2006). The diagnostic analyzes the broader economic and financial sector context of the country, demand- and supply-side issues, and regulatory issues. The public-private dialogue disseminates the results of the diagnostic at a national, regional, and worldwide level. Second, develop and implement a regulatory road map based on the findings of the diagnostic and the emerging private-public consensus. Third, facilitate the process of learning, communicating, and catalyzing the lessons learned. The ultimate goal is to foster development of the microinsurance market in the region and worldwide.

The specific objectives of the diagnostic are to explore the impact that the current policy and regulatory framework has on microinsurance development, identify regulatory barriers to development, and present recommendations in order to assist the SBS in developing Peru's microinsurance market.

Methodology

The diagnostic covers four areas: contextual factors, demand-side issues, supply-side issues, and regulatory issues (which include policy and supervisory issues).

We obtained the information used to analyze each of these areas through the following activities:

1. A two-week country visit carried out between April 11 and April 26, 2013. During this visit the team conducted more than 35 interviews with 31 stakeholders (see annex 2 for a list of stakeholders interviewed during the visit).
2. A qualitative study conducted by the Peruvian consultancy firm, IMASEN. The study provided demand-side insights from 16 focus group discussions (FGDs). It was carried out between July 15 and 23, 2013, in three regions of Peru: Lima (8 groups), Arequipa (4 groups), and Junín (4 groups; table 1).
3. A quantitative study developed by Datum International on behalf of the SBS. The study surveyed 1,640 heads of household between November 10 and December 11, 2012, and covered the following areas of Peru: the urban areas of Metropolitan Lima (including the province of Callao) and the departments of Arequipa, Junín, La Libertad, and Piura.
4. A visit to "Surquillo" market to interview local entrepreneurs.
5. A visit to "Villa el Salvador," where the team conducted qualitative interviews with members of local MFIs, in order to gain insight into their level of knowledge about insurance, their ability to access it, and any barriers they confront.
6. A review of the literature, data from the SBS, the Association of Peruvian Insurance Companies (APESEG), and some insurance companies, and applicable regulations, among others. We analyzed the regulations and draft regulations that were issued before August 31, 2013. Any regulations issued after this date were not covered.

Table 1. Comparison of the IMASEN and Datum studies

Source: Datum International 2012; IMASEN 2013.

Indicator	Datum study	IMASEN study
Objectives	<p>Obtain information concerning the degree of knowledge and perception of the urban population regarding insurance products and services offered in Peru and collect relevant data to estimate the resulting global indicators and by departments.</p> <p>Identify the possible barriers to accessing insurance as well as the barriers to taking out insurance (which may lead people not to use the product in spite of technically having access to it).</p> <p>Establish the current use and perception of insurance among the low-income population for the purpose of evaluating the need to adjust products and services for this segment.</p>	<p>Hold focus group discussions, which are a qualitative market research tool, to test and analyze perceptions about certain issues. The FGDs consist of small groups of people with similar characteristics. For the purpose of this study, they were composed of six participants and a skilled moderator to direct the discussion to specific issues. The objective of the discussion was to understand people's perceptions of their experience with risk, insurance policies, insurers, and their economic potential.</p>
Methodology	Face-to-face surveys at residences in selected Peruvian provinces. The standard survey was improved during a pilot test.	<p>16 Focus groups with groups of six people with similar characteristics, directed by a skilled facilitator.</p> <p>The FGD guidelines were developed by IMASEN, which incorporated the suggestions and feedback from the A2ii consulting team.</p> <p>In-depth interviews with some of the insured respondents to provide more qualitative data for this study.</p>
Target region	Urban areas of Metropolitan Lima (including the province of Callao) and Arequipa, Junín, La Libertad, and Piura provinces	Three regions of Peru: Lima, Arequipa, and Junín
Target group	Household heads (men and women) 18–70 years of age from all socioeconomic groups	Males and females 20–35 and 36–50 years of age, who belonged to economic segments C and D. Some of the respondents had some kind of insurance policy (primarily funeral, credit life, credit card, life insurance), and some had no insurance.
Sample size	400 surveys in Metropolitan Lima and 310 in each department (Arequipa, Junín, La Libertad, and Piura), totaling 1,640 respondents	16 FGDs in Metropolitan Lima (8 groups), Arequipa (4), and Junín (4)
Date of field research	November 11 to December 11, 2012	July 15 and 23, 2013

Structure

The diagnostic is divided into seven sections: Section 1 introduces the diagnostic and explains the analytical framework. Section 2 provides some key features of the Peruvian context that are relevant for microinsurance. Section 3 describes the demand-side insights gained from the IMASEN and the Datum studies and from visits made by the consultant team during the country visit. Section 4 provides relevant background to understanding the supply of microinsurance products in Peru and identifying the various players in the microinsurance value chain, the distribution channels used, and the most used products and their characteristics. Section 5 sets out the policy, supervision, and regulation applicable to microinsurance. Section 6 presents the findings of the study. Section 7 proposes recommendations in order to boost development of the microinsurance market.

Definitions and analytical framework

Before entering into the analysis, we explain what products are considered to be microinsurance (the conceptual framework) and identify the target market for microinsurance in Peru.

What is microinsurance?

Different definitions of microinsurance are used in different contexts and for different purposes. This diagnostic defines microinsurance as “insurance that is accessed by the low-income population, provided by a variety of different entities, but run in accordance with generally accepted insurance practices (which should include the IAIS Insurance Core Principles). This means that the risk insured under a microinsurance policy is managed based on insurance principles and funded by premiums” (IAIS and CGAP 2007).

Thus microinsurance is considered to be all products that are (or are capable of being) accessed by the low-income population or to which insurance practices apply. Indications that products are based on insurance practices include (1) premiums are clearly defined, (2) premiums (or similar fees) are paid up-front (before the risk is covered), and (3) claims are paid out of a risk pool, not a government budget. These products are generally based on an insurance contract, in which one party (the risk carrier), in exchange for a payment, agrees to compensate specific future losses as a result of the occurrence of a designated risk. No social welfare, social assistance, or public insurance based on noncontributory mechanisms is considered to be microinsurance.

In this context, microinsurance extends beyond the provision of insurance by microfinance organizations to include all categories of insurers—state-owned, commercial (shareholder-based), and nonprofit organizations (nongovernmental organizations, cooperatives, and mutuals). It is not tied to a specific insurance model or distribution strategy and could encompass all categories of insurance products. Furthermore, it can be provided by formal (licensed) or informal insurers.

Although the SBS uses the same definition of microinsurance as the one adopted here, many insurance products that we consider to be microinsurance are not registered as “microinsurance” products with the SBS—for example, mass insurance products distributed by MFIs and alternative channels, mandatory insurance products, insurance products where the government is involved, and some products that are not considered to be insurance under the regulatory framework but that offer similar benefits to insurance.

Microinsurance is defined by current regulations as “insurance whose purpose is to protect the low-income population from the occurrence of losses caused by human or patrimonial risks that could affect them.”³ It is targeted to a different market than either mass or conventional insurance products. Mass insurance products are standardized products that (i) are drafted in simple language, (ii) are easy to understand and manage by policyholders, insured parties, and beneficiaries, and (iii) do not require special conditions in respect of the insured party or property; the simple acceptance by the insured party is sufficient. Conventional insurance are products that cover large, medium, and small risks and are tailored to each insured party or property. Registered microinsurance products are similar to mass insurance products in that they are not standardized, but they are different in that they must be tailored to the low-income population.

Certain characteristics are particular to microinsurance products:

1. They must consider the real and actual needs of the low-income population.
2. They can be distributed by “microinsurance marketers”⁴ (who register in advance with the SBS).

³ In 2007 the SBS adopted a quantitative definition of microinsurance according to which a product would constitute microinsurance if the premium and the insured amount were below a particular threshold (US\$3 and US\$3,000, respectively). This quantitative definition was later replaced by the definition provided by Microinsurance Resolution 2009.

⁴ In addition to microinsurance marketers, there are *comercializadores* (marketers), which are entities allowed to distribute mass insurance products after entering into a “commercialization agreement,” and bancassurance marketers, which are financial institutions allowed to distribute mass insurance products.

3. They must use a simplified policy or an insurance certificate (for group insurance), which must be simple and contain minimum requirements set out in the Microinsurance Resolution. They must not include conditions that could affect the simplicity and clarity of the contract or the ease of entering into it.
4. They do not need to verify the person (or persons) or property to be insured unless it is mandatory to do so because of the nature of the insurance.
5. They should not typically contain exclusions, but if exclusions are required, they must be minimal and be coherent with the covers provided by the product.
6. They cannot include deductibles, co-payments, or franchises.
7. Costs related to issuing the policy must be incorporated in the policy.
8. The claim must be paid within 10 days of receiving the documents requested in the simplified policy or insurance certificate.
9. Complaints relating to the nonpayment of a claim may be filed either with the marketer or with the broker, and insurance companies have 15 days to resolve the complaint.

What is the target market of microinsurance in Peru?

Microinsurance is intended for individuals who are not served or are underserved by the insurance market. In developing countries, this generally means low-income people, but other segments of the population could be underserved as well. This diagnostic focuses on the low-income population.

According to the Peruvian Association of Market Research Companies (APEIM), the Peruvian population is divided into five socioeconomic segments: A, B, C, D, and E. Segment A represents the rich; B, the upper-middle class; C, the middle class; D, the working class and low-income families; and E, the marginalized poor. The population in segments C, D, and E has income of approximately US\$316–US\$630, US\$158–US\$315, and US\$159 or less per month, respectively.⁵ The formula for determining socioeconomic segments was standardized in 2003 and, since 2011, has been based on data obtained by the National Survey of Households (ENAHO), which is updated every year by the National Institute of Statistics and Informatics (INEI).

The target market of microinsurance includes the population in socioeconomic segments C, D, and E. However, segment E is “too poor to buy” insurance and would only have access to insurance products through government involvement, notably public-private partnerships (PPPs). However, they could be a profitable target market in the not too distant future.⁶ We generally refer to the target market for microinsurance as being socioeconomic segments C and D and to segment E as the future target market.

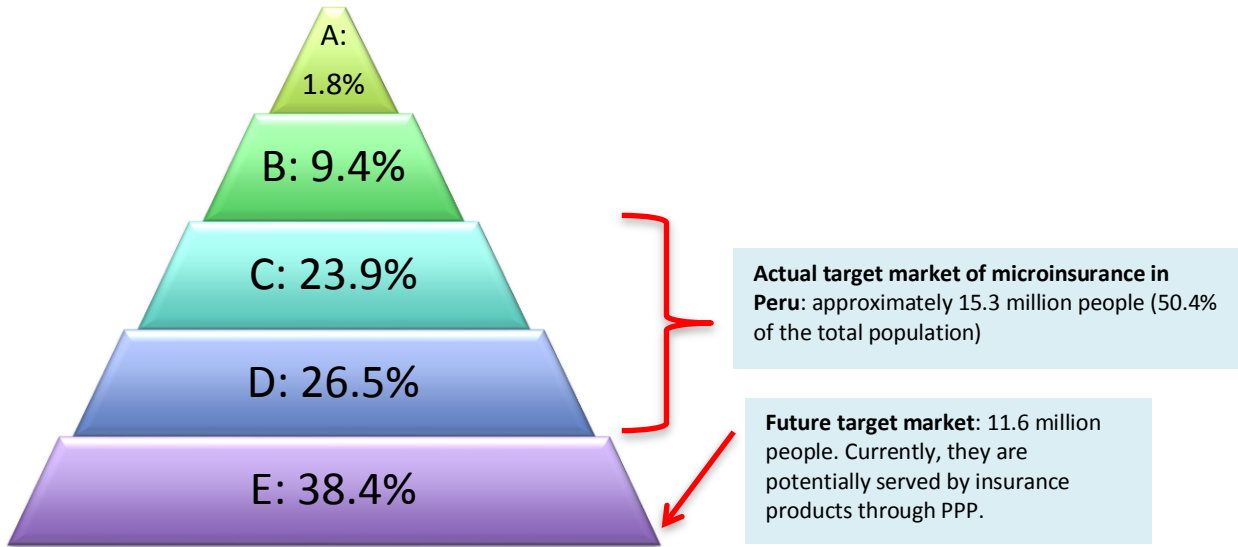
To quantify the target market for microinsurance, we turn to a recent study carried out by the APEIM (2013). The target market for microinsurance is approximately 15.3 million people, which represents 50% of the total population (segments C and D). In addition, 11.6 million people (38%) are the future target market (segment E), as illustrated in figure 1.

⁵ US\$1 (U.S. dollar) = S/. 2,789 (Peruvian nuevo sol) as of November 8, 2013.

⁶ According to the ENAHO, in the first quarter of 2013 the average monthly income for the urban working population of Peru was US\$514.55, representing an increase of almost 16% (US\$69.8) in comparison to the same quarter of 2012. According to their level of education, the average income increased 4% (US\$10) for those with primary education, almost 7% (US\$25) for the active workforce with secondary education, and 16% (US\$99) for those with higher education in urban areas (INEI 2013b, p. 10)

Figure 1. Target market for microinsurance in Peru

Source: Based on APEIM 2013.



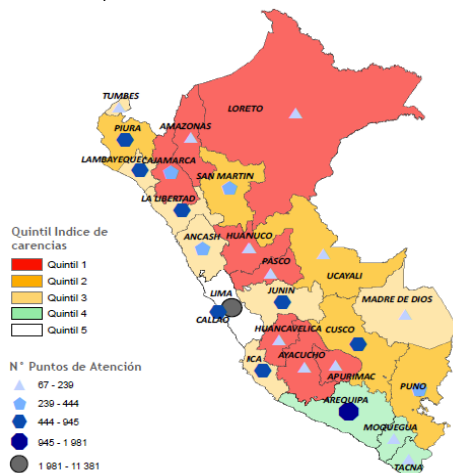
We found only one study that provides information on how many people from segments C, D, and E have access to insurance products. Carried out in 2011 by La Positiva insurance company, it found that 21.7 million Peruvians (77.5% of the total population) were not covered by any insurance product: 74% of segment C, 89% of segment D, and 91% of segment E. The La Positiva study estimated that the target market for microinsurance (those who could afford the premium without drastically affecting their household finances) was approximately 14 million persons. Extrapolating from the La Positiva study, we estimate that the current target market in Peru is approximately 12.5 million people (the uninsured in segments C and D) and that the future target market (the uninsured in segment E) is approximately 10.5 million people. Approximately 6.1 million people in the three segments are currently insured with some type of product, representing 40% of the target market.

2. Context

Macro and socioeconomic context

Figure 2. Regional map of Peru

Source: SBS presentation “Dinero electrónico, 2013.”



Peru’s macroeconomic context is characterized by geographic isolation and lack of infrastructure, exposure to natural hazards and dependence on agriculture, a history of hyperinflation, terrorism, and economic reform, stable economic growth, dramatic poverty reduction, gradual improvement in inequality, weak human development, a large informal sector, and sustained government efforts to reduce poverty and improve human development.

Peru is a middle-income country located in the western part of South America (figure 2). It has a population of 30.297 million (CEPAL 2013) and is the third largest country in South America (after Brazil and Argentina).² It has three natural regions: the Pacific coastline, the Andean region, and the Amazonian forest. Each region has a unique microclimate, ranging from hot and dry (coast) to temperate (mountains) and to hot and humid

(forest). Each region also has different dialects and cultures, and some parts of the country are almost inaccessible. Geographic isolation exacerbates poverty, raises the costs of commercialization, and makes difficult the provision of information and public services such as health, technology, politics, infrastructure, and social capital (Webb 2013).

Millions of Peruvians have moved from the Andes to the coast over the past 80 years. Today, 55% of the population live in the coastal region, 32% in the Andean region, and 14% in the Amazonian forest (INEI 2007, p. 6). Nearly 77% live in cities, and 33% live in the Metropolitan City of Lima, the capital of Peru (INEI 2007, p. 6). “Financial access” to remote areas remains a challenge (Reyes, Cañote, and Mazer 2011). The National Bank (Banco de la Nación) is the only financial institution with a presence throughout the country. Concerted efforts have been made to improve infrastructure, including the use of non-banking agents, automated teller machines, mobile or satellite offices, and mobile phones (Webb 2013).

Peru is at high risk from geological hazards (earthquakes, tsunamis, landslides, and volcanoes) and hydro meteorological hazards (like the El Niño Southern Oscillation), which cause floods, droughts, strong winds, waves, and frosts. The country is located in an area with a high level of seismic activity, especially Lima. Peru has been hit by at least 30 major earthquakes over the past 400 years, has a history of tsunamis, and has 15 active volcanoes (GFDRR 2010, p. 210).⁷ The northern coast is especially vulnerable to El Niño events, which occurred in 1982–83 and 1997–98, with losses amounting to US\$2.277 billion and US\$3.569 billion, respectively, in damaged property, infrastructure, equipment, crops, and transportation infrastructure (GFDRR 2010, p. 211). Natural hazards have a negative impact on the agriculture sector, which represented 8% of Peru’s GDP in 2010—30% of Peru’s territory is used for agriculture (CEPLAN 2010). They also prevent access to public services and impede infrastructure improvements (IISD and UNDP 2013, p. 8). Of the total population, an estimated 32% (8.1 million people) earn their livelihood from farming, and the agriculture sector employs 31% (2.8 million) of the economically active population. People have developed many ways of coping with climate change: diversifying their crops and sources of income, using fertilizers, harvesting rainwater, storing water, and using groundwater. However, coping strategies are not available for all shocks. People often need to ration food or sell valuable assets, such as livestock, which can

⁷ The August 2007 earthquake caused US\$2 billion in damage; the 1997 flood, an US\$1.2 billion; the 1983 flood, US\$988 million; the 1970 earthquake, US\$530 million; the 2001 earthquake, US\$300 million; and the 1992 drought, US\$250 million (CERN-AL et al. 2012).

make them even more vulnerable in the future. Finally, rural communities often lack a local organization for responding to emergencies, exacerbating problems when they disasters occur (IISD 2013).

In the 1980s, Peru was wracked by economic turmoil and internal conflict. Indeed, throughout the 1980s and the early 1990s, Peru experienced bouts of hyperinflation, which reached an astounding 7,560% in 1990 (the highest in the world) and a cumulative 2,200,200% over Alan García's five years at the helm (Parodi 2000). The Peruvian currency, the sol, was replaced by the inti in mid-1985, which itself was replaced by the nuevo sol in July 1991. These periods of hyperinflation profoundly destabilized the Peruvian economy. Private wealth and workers' net incomes were savaged for more than a decade, and trust in the financial sector eroded as private banks, government development banks, credit unions, savings and loan associations, and nongovernmental organization (NGO) credit programs failed. The largest collapse was the small farmer credit program of the government-owned Agricultural Bank. García attempted to nationalize the banking and insurance industries and declared a limit on debt repayment equal to 10% of GDP, isolating Peru from international financial markets. By 1990, 44% of households were below the poverty line of US\$2 per person per day, and GDP (US\$1,588) was at the same level as in 1960 (Inga, Webb, and Conger 2009).

This dire economic situation was aggravated by terrorism, principally by the activities of the Sendero Luminoso (the Shining Path). This period of civil war caused massive internal displacement, deaths, and disappearances and caused considerable damage to Peru's infrastructure, as the insurgents bombed bridges, railways, hospitals, electricity and mining installations, factories, farms, and other buildings. The group exerted de facto control in impoverished regions, particularly in the Andean highlands, where the central government's influence and interest were weak and grew weaker still. Alberto Fujimori was elected president on July 28, 1990. His policies sought to address both Peru's economic situation and its internal conflict. By the end of 1992, the leader of the Shining Path was captured, and terrorist activity was in decline (Stern 1998). Drastic measures brought inflation down to 139% in 1991. A process of economic liberalization was initiated to end government price controls, economic protectionism, and restrictions on foreign direct investment and to privatize Peru's state-owned industries. Parts of the informal sector were legalized, the tax regime was reformed, the central bank was granted autonomy, and the legal basis for foreign investment was strengthened (Inga, Webb, and Conger 2009). Peru also privatized state-owned banks and restructured the Financial Development Corporation (COFIDE). A new stronger solvency and supervisory regime was created, and the industry was deregulated.⁸ Peru's recluse status with the International Monetary Fund (IMF) and the World Bank was brought to an end as Peru reassumed its international debt obligations. The economic recovery began in 1993 and continued through to 1997.

In 2010, Peru was the seventh biggest economy in Latin America, with GDP of US\$157 billion (World Bank 2012b). Peru's main economic activities are mining (40% of GDP), fishing (15%), textiles (14%), and agriculture (8%). Peru has achieved sustained economic growth since 2006, growing between 8% and 10% annually. Per capita GDP almost doubled in the last decade, from US\$5,543 in 2000 to nearly US\$8,555 in 2010 (Ferreira et al. 2013, p. 18). Peru now has one of the most stable economies in Latin America. It has the best country risk index in the region, 95 points in 2012 (Castillo and Morales 2013, pp. 16–18), and the lowest inflation rate, remaining at around 4% over the past five years.

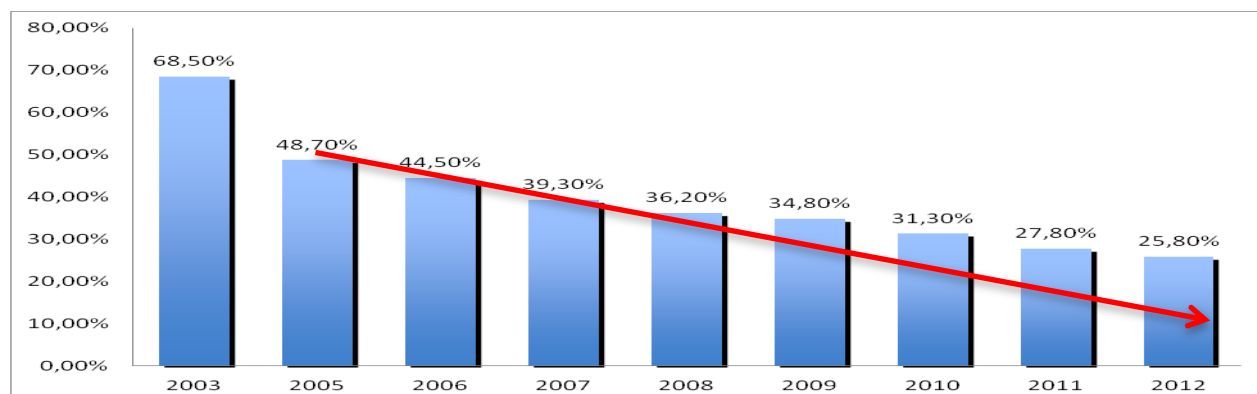
Peru's economy is now in a cyclical process of moderation. The IMF has estimated that Peru's GDP will continue to grow at around 6% a year for the period from 2013 to 2018 (IMF 2013). BBVA Research reached similar conclusions. This is consistent with the decline in business optimism as a result of the volatility of international markets, the drop in the price of metals exported by Peru, and the slower growth of the Chinese economy (BBVA Research Peru 2013). However, growth will be supported by Peru's signed signing of free trade agreements with the United States, Chile, Mexico, Central America, China, the European Community, Canada, Russia, Japan, and South Korea and its participation in the Asia Pacific Forum, the Pacific Alliance with Mexico, Colombia, and Chile, and the Southern Common Market (MERCOSUR).

⁸ The financial sector reforms comprised three laws: the Banking Law 1991, Decree 770, and Law 26702/XX.

In 2003, 69% of the population lived under the national poverty line (between US\$4 to US\$5 per person per day, purchasing power parity).⁹ However, poverty has declined considerably since 2005, accompanied by a continual improvement in development indicators and sustainable and positive class mobility (figure 3; Lavigne 2013).

Figure 3. Poverty in Peru, 2003–12

Source: World Bank 2012b; CEPAL 2013.

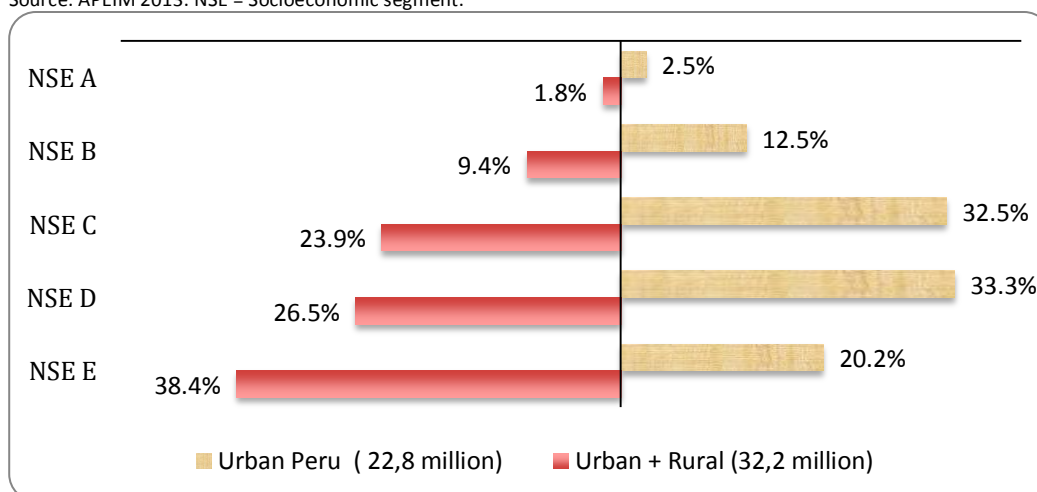


Extreme poverty has also declined—from about 17% in 2004 to less than 8% in 2011. In 2010, 13% of the population was living on US\$2 per person per day, compared with 22% in 2003. The greatest advances occurred in urban and peri-urban areas. Rural areas still suffer alarming poverty rates: 74% in 2007 and 61% in 2011 (INEI 2013a). Poverty is highest in the Andean and Amazonian regions, but extreme poverty has declined in rural areas—from 42% in 2007 to 22% in 2011. In 2012, 35% of farmers (both dependent and independent) were considered “nonpoor,” compared with 47% in 2010 (INEI 2012c). In rural areas, 46% of households participate in at least one social program, more than triple the participation in urban areas (14%; INEI 2013b).

Among the urban population, 20% are in segment E, and most are in segments C and D (32% and 33%, respectively). Despite the country’s remarkable economic development, the fruits of this development have not been shared equally between the rural and urban population (figure 4; APEIM 2013).

Figure 4. Distribution of population

Source: APEIM 2013. NSE = Socioeconomic segment.



⁹ The national extreme poverty line is US\$54.14—monthly amount per capita spent on a basic food basket—and the national total poverty line is US\$101.82—monthly amount per capita required to satisfy basic food and nonfood needs (INEI 2012b, p. 25).

Although income inequality has been reduced (the Gini declined 3.4 points between 2000 and 2008), it is still high. More than half of the population (65%) are in segments D and E and only 10% are in the higher-income strata (Ortiz and Cummins 2011). In 2009, the most privileged segments of the Peruvian population had an income that was 12.5 times higher than the less privileged, and their income constituted 53% of national income, compared with 4% for the less privileged (PAHO 2012).

In 2012, Peru was ranked 77 on the human development index,¹⁰ below Chile (40), Argentina (45), Uruguay (51), Mexico (61), and Venezuela (71), but above Brazil (85) and Colombia (91). Access to preschool education by children between the ages of three and five has grown less than 5% since 2008, and is 13% higher in urban than in rural areas. Substantial disparities regarding access to education relate to gender, rural or urban residence, and level of poverty of the family (UNICEF 2011). Still, 93% of the Peruvian population were literate in 2011 (INEI 2012a).

Peru ranks 72 out of 146 countries on the United Nations Development Program's gender equality index: only 58% of women over the age of 25 have received a secondary education, compared with 76% of men (Gender Equality Observatory 2012). Only one-third of students in tertiary education are female, and less than one-third of seats in the Peruvian Congress are held by women.

There are 43 indigenous peoples living in Peru, accounting for 7 million people, or approximately 25% of the population. Other minority groups include Afro-Peruvians, Chinese, and Japanese. The most numerous indigenous peoples are the highland Quechua: about 4.5 million Peruvians speak Quechua, and 8 million identify themselves as Quechua. The Aymara population, about 500,000 people, is concentrated in the southern highland region near Puno. The majority of indigenous peoples lack basic health and education services and income opportunities (Mora and Villavicencio 2006). Their poverty rate was almost double that for nonindigenous people (55% and 31%, respectively) in 2010 (Lavigne 2013). In addition, they are at high risk of losing their principal asset: land (UNHCR 2010).

The unemployment rate in Peru was 7.9% in 2010 (Lavigne 2013). The number of workers in the formal economy has increased substantially, yet most Peruvians still work under informal arrangements (CIA 2013). In 1991, there were an estimated 300,000 itinerant vendors in Lima alone. Although the rate of informality fell over the last 10 years, it fell from a very high level, and Peru continues to have one of the highest rates of informality in Latin America. Between 2000 and 2010, informality fell from 68% to 60% of GDP (World Bank 2012a). In 2009, informal workers represented 59% of the working population. Informal workers lack social protection and insurance, which has broader consequences for inequality and poverty. Most informal workers are not affiliated with either a pension system or health insurance. In 2012, out of the informal workers who were affiliated with health insurance, 36% were covered by the Seguro Integral de Salud (SIS) and 9.3% by EsSalud, the social health insurance system. In 2009, only 14% of informal independent workers and 18% informal wage earners were affiliated with a pension scheme. Informality can also affect labor market outcomes, productivity, and growth through several channels. In 2009 average monthly wages were US\$690 for formal workers compared with US\$233 for informal workers (Lavigne 2013). Tax revenue is lost, as certain transactions are omitted from official economic statistics, and this may affect the estimated value of transactions and the price indexes used to produce measures of real activity, possibly leading to suboptimal economic policies (Andrews, Sánchez, and Johansson 2011).

The Peruvian government has designed and implemented a series of social programs to promote the welfare of the population (especially the most vulnerable segments) by guaranteeing access to sufficient resources to cover basic needs such as food and shelter and by promoting health and well-being. The Ministry of Development and Social Inclusion (MIDIS) manages most of these programs.¹¹ The social programs mentioned below aim to protect targeted households suffering from poverty and poor living

¹⁰ The human development index ranks countries according to life expectancy and healthy life, knowledge, and a decent standard of living.

¹¹ The MIDIS, created in 2011, aims to improve the quality of life of vulnerable and poor people and to assist them to exercise their rights, access opportunities, and develop their own abilities. It works with various public and private sector entities and civil society organizations and helps to ensure that social programs achieve their goals through continual evaluation, empowerment, training, and coordination between stakeholders.

conditions in urban and rural areas of Peru, generally the population in segment E, who are considered to be too poor to buy insurance.

The Peruvian Constitution recognizes the right to health care and social security and guarantees free access to health care and pensions. In order to ensure universal coverage of social services, the government created the SIS in 2001, enacted the Framework Law on Universal Health Insurance (FLUHI) in 2009, and implemented the Health Insurance Essential Plan, which consists of mandatory benefits packages. The FLUHI guarantees the right to health care, notably by establishing the government's obligation to enable and finance the right to health care and by institutionalizing the complementarity between private and public health insurance. It also requires all Peruvian residents to be affiliated with a health insurance regime (whether subsidized, semi-subsidized, or contributory).

There are two types of public insurance: the SIS and EsSalud. The SIS targets the most vulnerable. EsSalud provides health insurance under a contributory health scheme; it is compulsory for wage earners and voluntary for independent workers. The SIS provides basic services,¹² whereas EsSalud offers a more complete portfolio of health services. These two systems have increased access to health care in Peru markedly over the last 15 years, from only 23% in 1994 to 57% in 2010 (Lavigne 2013). Recently, the ENAHO found that, as of the first quarter of 2013, 66% of the population had a health insurance program or scheme (INEI 2013b):¹³ 34% by the SIS, 25% by EsSalud, and almost 8% by other health insurance, such as health insurance specifically for policemen and the army or private insurance (table 2). Despite these efforts, 4 out of 10 Peruvians are still not covered by any health insurance (Lavigne 2013).

The private health insurance system is provided by health provider entities (EPS),¹⁴ which are supervised by SUNASA, and by other health insurance products, such as those offered by insurance companies, health care providers, and associations. The private health system covers only segments A and B (PAHO 2012).

Access to health care is scarce in rural and isolated areas. According to a survey by the Ministry of Health (Ministerio de Salud 2012), even though health care under the SIS is free, there are other barriers to access: people do not consider medical attention to be necessary (44%), prefer to use home-made medicine (25%), are far from a health care center (14%), lack confidence or experience long delays in accessing care (14%), and cannot afford it (13%). In August 2013, the Peruvian Congress established a framework for strengthening the national health care system; 23 decrees were issued on December 10, 2013. One of the key actions was to strengthen the National Superintendence of Health (NSH),¹⁵ giving it the authority to sanction the EPS, insurance companies providing health insurance, and clinics and health care centers.

Table 2. Share of the population covered by health insurance schemes, 2000–13

Source: INEI 2013b.

Population covered	2000	2008	2013, 1st quarter
Population covered by a health insurance scheme or program	32.33%	42.0%	66.3%
Population with EsSalud	19.7%	20.0%	24.8%
Population with SIS	—	18.0%	34.0%
Population with other types of insurance ^a	12.6%	4.0%	7.5%
Population not covered by health insurance scheme or program	67.7%	58.0%	33.7%

- a. There are other kinds of health schemes such as the Armed Forces Medical Services (Armed Forces) and the National Police of Peru.
— Not available.

The Peruvian pension system is composed of three main schemes: the National Pension System (SNP) managed by the Oficina de Normalización Previsional, the Living Decree, and the private pension system

¹² Despite the attempts of the FLUHI to improve services provided by the SIS.

¹³ Recently, the Ministry of Health concluded that 27% of the population does not have insurance, and its constituents are mostly informal and independent workers, poor people, microentrepreneurs, and persons who are geographically isolated (Ministerio de Salud 2013).

¹⁴ Four EPSs are authorized in Peru: Rimac, Pacífico, Mapfre Peru, and La Positiva Sanitas.

¹⁵ Formerly the Superintendencia Nacional de Aseguramiento de Salud (SUNASA), which was in charge of supervising health care providers (clinics, health care centers, and so forth) and the institutions that manage health insurance (EPS, EsSalud, and SIS).

(SPP), an individual capitalization system. The first two are administered by the government, while the third is administered by pension fund administrators (AFPs).¹⁶ Formal workers are obliged to affiliate with a pension scheme. The SNP serves around 1.4 million people, who are private and public sector employees not covered by the Living Decree. The Living Decree only covers public workers who began their administrative career before 1962, teachers who started to work before 1980, and workers at state-owned companies and magistrates. The SPP is voluntary, and workers can decide whether to stay in the SNP or join the SPP. The SPP serves more than 5 million workers, who open an individual contribution account managed by an AFP and build up a personal pension fund for retirement (Lavigne 2013). Pension systems generally cover disability, widowhood, orphanhood, and dependents of a deceased worker.

The law reforming the pension system in Peru provided that all independent employees must be affiliated with a pension regime, but this provision was suspended until August 2014. Currently, some factions of the government wish to overturn it, while representatives of the Ministry of Labor insist on retaining the provision in an amended form.

In 2008 Congress promulgated a voluntary pension system for microenterprises (firms with a maximum of 10 employees), which is managed by the Oficina de Normalización Previsional. Once implemented, it will cover workers who are not covered by any other contributory regime.

Peru also has two noncontributory pension schemes: Pensión 65 and the Minimum Pension for Old Age, created in 2010. The latter aims to provide a minimum pension to all workers who have contributed for at least 20 years and whose pension will be below the minimum threshold. Informal workers are excluded from contributory pensions, and only 25% of the active population was affiliated with a pension scheme in 2008 (Lavigne 2013). Most people covered by a contributory regime are covered by the private sector.

Financial and microfinance sector context

Peru's financial system is composed of 61 institutions, including banks, financial institutions, "non-banking microfinance institutions," and finance lease companies. In June 2013, Peru's financial system held assets totaling US\$100.4 billion (SBS 2013). Banking institutions represent 89% of the total assets, whereas financial institutions and non-banking MFIs represent only 4% and 7%, respectively, of total assets. The insurance system is composed of 14 insurance companies. The private pension system is composed of four AFPs, with approximately 5 million members in July 2013.

Peru's microfinance sector is one of the most highly developed in the world (Inga, Webb, and Conger 2009), earning the highest score in the region for its regulation of microfinance and overall capacity to supervise microfinance (Economist Intelligence Unit 2013). Peru ranked first in the region for the sixth consecutive year because of its sophisticated legal and regulatory framework and its competitive microfinance sector. One in three urban and rural small enterprises borrows from microfinance institutions, and the debt owed by small enterprises to microfinance institutions is equivalent to 8% of their household income. In terms of microcredit portfolio, Peru was ranked first in 2010 in Latin America and the Caribbean, with approximately US\$3.2 billion (Pedroza 2010).

The principal sources of funds for microfinance between 1989 and 2009 were deposits (58%), market borrowing (24%), and reinvested earnings (18%). Government and foreign donor funding also played a role. For example, municipal saving and credit institutions (CMACs) were launched with a small government investment and have been self-financing since then. Peru's microfinance sector is one of the least subsidized in the world, with an insignificant amount of government subsidies. Loans and deposits grew more than 250% between 2001 and 2010, reaching US\$51,685 million by the end of 2010 (Inga, Webb, and Conger 2009, pp. 13–14).

¹⁶ The SBS has authorized four AFPs: Habitat, Integra, Prima, and Profuturo. Horizonte merged with Integra and Profuturo and, since August 2013, no longer operates as an AFP. In 1993, eight AFPs were operating in the country.

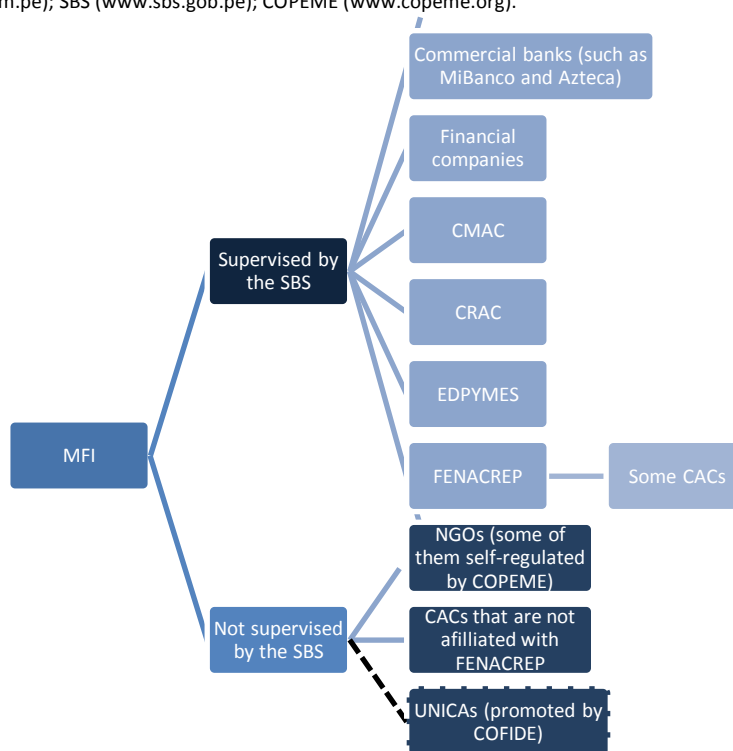
Considering deposits in private institutions only, financial penetration improved between 2004 and 2009 from 20% to 27% (Reyes, Cañote, and Mazer 2011, pp. 2–5). Still, Peru is below the regional average, and only 20% of households are included in the banking system, compared with 56% in Brazil and 42% in Chile (Lis and Tuesta 2013). According to the Peruvian Banking Association (ASBANC), low-income residents in remote communities have been effectively excluded from formal banking services.

Socioeconomic segments C, D, and E and small and microenterprises in urban and rural areas have access to credit and saving products largely through commercial banks, financial companies, and non-banking MFIs, which include rural saving and credit banks (CRACs), CMACs, and entities for the development and promotion of small and microenterprises (EDPYMEs). Segments C and D are also served by NGOs, saving and credit cooperatives (CACs), and credit and savings associations (UNICAs), which are promoted by COFIDE. We refer to these entities, excluding the UNICAs, broadly as microfinance institutions.

Some MFIs in Peru are supervised, directly and indirectly, by the SBS, while others are not. The MFIs supervised by the SBS are those that have corporate structures, such as commercial banks, financial companies, CRACs, CMACs, and EDPYMEs (figure 5). The last three structures are particularly responsible for encouraging the microfinance sector in Peru.

Figure 5. MFIs in Peru, by type of supervision

Sources: ASOMIF (www.asomif.com.pe); SBS (www.sbs.gob.pe); COPEME (www.copeme.org).



Two main commercial banks are targeting segments C, D, and E: Banco Azteca and MiBanco. MiBanco is the first Peruvian bank to specialize in microfinance. It started operations in May 1998 on the basis of the Community Action of Peru (ACP) experience, which is its most important shareholder.

There are 11 financial companies in Peru.¹⁷ Such companies can offer credit and saving products to their clients. Two EDPYMEs have become financial companies: Edyficar in 2008 and Proempresa in 2012. Also, the CRAC Nuestra Gente was converted into a financial company in May 2013 after being absorbed by Confianza.

¹⁷ Crediscotia, Financiera Edyficar, Universal, Proempresa, Confianza, Compartamos, Financiera TFC, Efectiva, Amerika, UNO, and Mitsui.

The CRACs provide financial services to medium, small, and microenterprises in rural areas.¹⁸ They are entitled to take savings from the public. Although oriented primarily toward rural areas, they also offer microcredit to urban microenterprises.

The CMACs are non-banking financial institutions that are regulated by the local governments (having originated in provincial town halls). They are supervised by the SBS and are entitled to take public resources.¹⁹ They specialize in financing development transactions, preferably of small and microenterprises, but also related to the public in general. They are grouped through unions under the Peruvian Federation of Municipal Saving and Credit Accounts (FEPCMAC).

The EDPYMEs were authorized in 1998.²⁰ They are non-banking institutions (having originated largely as NGOs) that are regulated and supervised by the SBS. They are not allowed to take savings from the public: their financing comes from other sources such as nongovernmental agencies, international entities, local lines operating through the COFIDE, and national or international commercial lines of credit.

Two kinds of cooperatives serve segments C and D: those that bring financial services to their associates (CACs) and those that provide a range of products and services to their members (service cooperatives). In Peru, 165 CACs provide services to at least 1 million members and their families in 23 regions. Out of these, 85 are affiliated with the National Federation of Saving and Credit Cooperatives of Peru (FENACREP), which is supervised by the SBS. Approximately 80 CACs are not supervised by FENACREP.

Some NGOs that are not supervised by the SBS also work in the microcredit sector thanks to the donations and support they receive from foreign institutions.²¹ Most of these are self-regulated by the Consortium of Private Organizations Promoting the Development of Micro and Small Enterprises (COPEME).

The UNICAs are a civil partnership of 10 to 30 families from a community who come together to manage economic activities that benefit their members, mainly savings and credit services. As at December 2012, there were 696 UNICAs with 10,636 associated families. COFIDE promotes the UNICAs and provides training to them. UNICAs are associated in the UNICAs Network (Red de UNICAs).

MFIs receive support from various organizations. CACs are supported by FENACREP, which since 1959 represents the interests of cooperatives and provides technical assistance and supervision. Other important organizations are the Association of MFIs (ASOMIF) and two consortiums: COPEME and the Consortium for the Promotion of Women and the Community. ASOMIF supports the operational development of its associates. It has 27 partners, including CRAC, EDPYMEs, specialized financial institutions, La Caja Metropolitana, CMAC Arequipa, Trujillo, and My Bank CMAC. COPEME was founded to strengthen the rural and urban microenterprise sector. It is a private nonprofit with more than 50 members and subsidiaries throughout the country. It has international support from, among others, the Ford Foundation, the U.S. Agency for International Development, Oxfam, the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), and the Inter-American Development Bank (PlaNNet Finance and PlaNNet Guarantee 2010).

¹⁸ There are 10 CRACs: Cajamarca, Nuestra Gente, Chavín, Señor de Luren, Libertadores de Ayacucho, Los Andes, Sipán, Prymera, Credinka, and Incasur.

¹⁹ There are 13 CMACs: Arequipa, Lima, Cusco, del Santa, Huancayo, Ica, Maynas, Paita, Pisco, Piura, Sullana, Trujillo, and Tacna.

²⁰ There are 10 EDPYMEs: Cajamarca, Credichavin, Credinka, Incasur, Los Libertadores-Ayacucho, Los Andes, Prymera, Sr. De Luren, Sipan, and Nuestra Gente.

²¹ More than 15 NGOs specialize in microfinance in Peru, and the majority of them operate with the village banking methodology. These NGOs are Raiz, Solidaridad, Alternativa, Credivisión, Acceso Crediticio, Inversiones La Cruz, Nueva Visión, Micasita, Marcimex, Credijet, Adra Peru, AdeaAndahuaylas, AMA, Akariwa, Edaprospro, FINCA Perú, Fondesurco, FOVIDA, IDER Cesar Vallejo, Manuela Ramos, MIDE, Prisma, Promujer Peru, and IDESI Grau.

3. Understanding the microinsurance consumer

This section profiles microinsurance consumers, describing what risks they fear the most and what events they perceive are likely to occur, what their coping mechanisms are, what their expenditure priorities are, and what their awareness and perceptions of insurance are. We also analyze factors encountered during our consultations that have an impact on their ability to access insurance products.

Risk perception and experience

According to the IMASEN study, people naturally feel an aversion to risk, but they believe that risk is inherent to the human condition and difficult to avoid. Consequently, FGD respondents said that they are not concerned with finding a way to avoid or to deal with risks. In other words, they do not think about how to manage them, let alone about buying an insurance policy to cover them. They feel differently about unexpected events, which they do not view as necessarily negative. A wide range of events, such as illness, weddings, or engagement parties, are considered together as “unexpected events.” In order to meet expenditures arising from unexpected events, respondents usually resort to their savings, borrow money from their friends or a financial institution, or organize a fundraising event such as a raffle or a barbecue.

The risks that respondents fear the most are serious illness, death of a relative, earthquake, and burglary of the home (table 3). This is similar to the top risks in other Latin American countries: health and personal accidents in Brazil and health and unemployment in Colombia (Bester et al. 2010; Cenfri 2008). When asked what events would affect them the most, they said serious illness and the death of a relative. During the FGDs, several participants mentioned “bankruptcy,” and many mentioned death and illness. Although they said they are concerned about burglary and theft, few listed it as a priority.

Table 3. Event that would have a greater impact on the household, by socioeconomic level

Source: Datum International 2012, p.16. Number of respondents: 1,640.

Type of event	Total	Segments A/B	Segment C	Segment D	Segment E
Serious illness	22%	31%	17%	24%	14%
Death of a relative	22%	11%	29%	21%	25%
Earthquake	19%	23%	17%	19%	16%
Home burglary	8%	10%	10%	6%	7%

Women tend to be more concerned about the health of their children than men. They also worry about not having sufficient resources to cope with the costs of health care incurred by their parents. They are concerned about the costs of funerals and burials. Men tend to be more concerned about work-related accidents (Palomino, Cáceres, and Kanashiro 2011).

Risk perceptions vary according to socioeconomic segment. Indeed, according to the Datum study,²² for segments A, B, and D, the event that would affect them the most is “serious illness” (31% and 24%, respectively), but for segment C and E, it is the death of a relative (29% and 25%, respectively). These events are followed by burglary and catastrophic events. According to the IMASEN FGDs, the main concerns in urban areas are earthquakes. In the mountain regions, they are related to catastrophic events, such as landslides, hail storms, and flash flooding linked to heavy rainfall. In rural areas, in addition to concerns about earthquakes, people worry about plagues and catastrophic events linked to climate change. Public transport drivers worry about being liable to third parties for negligence or work-related problems.

²² The estimated margin of error of the Datum study is +/-3.7% at the general level, +/-7.6% in Metropolitan Lima, and +/-8.5% in each other city. The study involved 310 respondents in each of Arequipa, Junín, La Libertad, and Piura and 400 in Lima, resulting in a total of 1,640 respondents, with 1,036 from segments C and D.

Regional differences are notable and shown for all socioeconomic segments in table 4 and for segments C and D in table 5.

Table 4. The event that would have a greater impact on the household, by region, for all socioeconomic levels

Source: Datum International 2012. Number of respondents: 164.

Event	Average	Arequipa	Junín	La Libertad	Lima	Piura
Death of a relative	22	21	22	30	23	13
Serious illness	22	17	18	28	22	22
Earthquake	19	19	16	11	21	15
Vandalism or terrorism	8	16	9	5	8	4
Burglary (home)	8	4	5	3	10	6
Accident (work)	6	4	7	8	6	7
Accident (traffic)	5	2	5	3	7	2
Intense rain	5	6	8	7	1	24
Landslide	1	5	1	1	1	1
Flood	1	3	4	3	1	1
Theft (car)	1	4	6	1	0	5

Table 5. The event that would have a greater impact on the household, by region, for socioeconomic levels C and D

Source: Datum International 2012. Number of respondents: 1,640.

Event	Average	Arequipa	Junín	La Libertad	Lima	Piura
Death of a relative	25	19	17	29	27	22
Serious illness	20	23	23	31	19	16
Earthquake	18	20	16	11	19	16
Vandalism or terrorism	9	5	5	3	11	8
Burglary (home)	8	15	9	5	8	3
Accident (work)	7	4	7	7	8	7
Accident (traffic)	5	2	6	3	6	2
Intense rain	4	3	6	8	1	21
Landslide	2	2	4	3	1	1
Flood	1	1	6	1	0	4
Theft (car)	1	5	0	1	0	1

Table 6. The event most likely to occur in the household, by region, for all socioeconomic levels

Source: Datum International 2012. Number of respondents: 1,640.

Event	Average	Arequipa	Junín	La Libertad	Lima	Piura
Death of a relative	60	20	71	73	64	57
Serious illness	61	27	74	76	63	55
Earthquake	74	75	60	67	77	68
Vandalism or terrorism	38	19	21	37	42	42
Burglary (home)	66	44	68	77	69	58
Accident (work)	65	29	66	73	71	60
Accident (traffic)	64	28	64	75	69	60
Intense rain	39	54	62	75	27	62
Landslide	18	21	27	31	14	17
Flood	24	23	50	31	16	48
Theft (car)	19	8	12	11	21	29

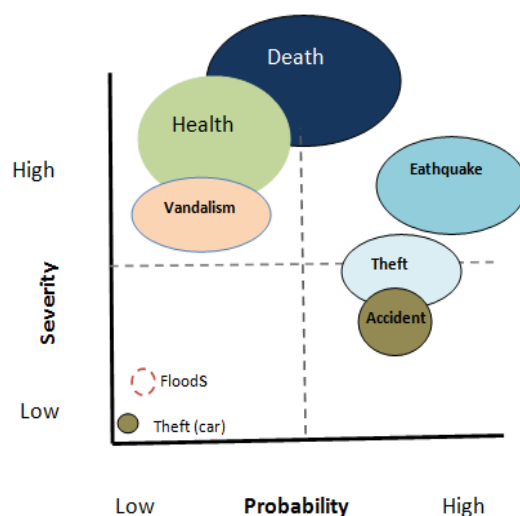
When asked about the probability of their household being affected by a series of events, 74% of the respondents²³ to the Datum survey (from all socioeconomic segments) mentioned earthquakes, followed by burglary (66%),

²³ The result is the addition of the percentage of answers “very likely and likely” (Datum International 2012, p. 10).

accidents at work (65%), car accidents (64%), serious illness (61%), and death of a relative (60%). The results are presented in table 6.²⁴ The responses were almost identical for respondents from segments C and D.

The perceived probability of an event occurring diverges considerably when breaking down the data by region. Taking into account the geographic features of each region and the respondent’s level of income, the range of perceived probability of death of a relative and serious illness occurring is very broad. This is true not only for all socioeconomic segments but also for segments C and D. In Arequipa, respondents ranked such events as being much less likely to occur than the average. While 60% of all respondents and 59% of all C and D respondents said that they consider the death of a relative “likely or very likely” to occur, only 21% of respondents in segments C and D in Arequipa said the same. Furthermore, 61% of all respondents and 57% of respondents in segments C and D consider a serious illness as likely or very likely to occur, compared with only 26% of respondents in Arequipa. In Junín and La Libertad, the event perceived as the “most likely to occur” is serious illness (76% and 75%, respectively), while in Arequipa (82%), Lima (74%), and Piura (72%), it is an earthquake.

Figure 6. Graphic representation of the risk experience of FGD respondents in segments C and D
Source: Datum International 2012.



People’s perception of the severity of a particular risk is not always related to the probability of that event occurring in their household. While the death of a relative is the most severe risk according to respondents in segments C and D, it is not the most likely to occur (ranked 5). They ranked serious illness as 2 on the severity chart but only 6 under risks likely to occur. Table 7 presents the top six risks ranked by severity and probability, and figure 6 provides a visual illustration of that, with the size of the globes representing their perceived level of severity according.

Table 7. Top six risks ranked by severity and probability

Source: Datum International 2012.

Ranking	Severity	Probability
1	Death of a relative	Earthquake
2	Serious illness	Burglary (home)
3	Earthquake	Accident (work)
4	Vandalism or terrorism	Accident (traffic)
5	Burglary (home)	Death of a relative
6	Accident (work)	Serious illness

According to the Datum survey, in the past 12 months, 15% of households said that they had been affected by a serious illness; 11% had lost at least one family member, and 10% had experienced a burglary at home. Regarding natural catastrophes, 20% of respondents replied that in the past five years their household had been affected by intense rain, followed by 11% who replied that it had been affected by an earthquake.

Coping mechanisms

The Datum survey asked 1,036 respondents from segments C and D about their risk-coping mechanisms related to 11 events: landslides, intense rain, flood, earthquake, vandalism, death of a family member, serious illness, burglary (home), burglary (car), work-related accidents, and traffic-related accidents.

²⁴ Analyzing the results by region uncovers considerable differences. For instance, in Junín, the risk considered the most likely to occur is “serious illness,” and in La Libertad it is burglary (77%), followed closely by serious illness (76%) and then intense rain and traffic accidents (75%).

Insurance was only mentioned as a risk-coping mechanism for four events (death of a family member, serious illness, work-related accidents, and traffic accidents). Only 4% of the 1,036 respondents mentioned insurance as a way of managing the risk of serious illness, and only 2% said they would resort to insurance. Apart from a serious illness and death of a family member, “insurance” was only mentioned as a risk-coping mechanism for a work-related accident (5%) or a traffic accident (6%). For a work-related accident, it was the last option, tied with selling an asset (5%). For a traffic accident, it came just slightly ahead of selling an asset (4%).

People tend to use savings for coping with unexpected events that affect the household, specifically for a serious illness (27%), death of a relative (26%), landslides (28%), intense rain (29%), floods (26%), vandalism and terrorism (27%), and work-related accidents (26%).

Of respondents to the Financial Culture Survey, 35% reported having saved money at home over the past 12 months—45% for those with an income lower than US\$215.13 and 27% for those with an income higher than US\$1,075—and 30% reported having saved with a financial institution (Universidad del Pacifico and SBS 2012; Fukusake et al. 2011, p. 6). Although Peruvians tend to save money for emergencies, setting aside a portion of income varies by gender. Women usually save money by paying attention to the price of goods when shopping and to budget according to their earnings (when they have a source of income). Men usually save the extra money they earn doing additional work. Men and women do not share information about savings with their partner.

Respondents also reported difficulties in saving money at a given moment in time. They do not see the benefit of depositing small amounts of money in a bank. They live on a tight budget and cannot always save continuously. They save by keeping money at home or depositing it with a savings group. Very few respondents reported having deposited money at a bank.

They may save on a daily or monthly basis, but they often dip into their savings to cover unexpected expenses. Some keep money aside (savings) at home, so that they can break their “piggy bank” with their children to spend on Christmas shopping. Others dip into their savings to pay for a short trip or to buy a home appliance or decorations. The amount saved varies according to the source of income. It could be “what is left in the wallet” at the end of the week (especially for housewives who do not have their own source of income), or it could be a daily, weekly, or monthly amount. FGD respondents from different regions and ages reported saving from between US\$0.35 per day and around US\$54 per week. Some mentioned using traditional informal savings groups, which are similar to rotating savings and credit associations.²⁵ Often, members buy items in bulk so that they can qualify for special discounts.

In the event of the death of a relative, serious illness, or car accident, respondents normally make use of a loan or contribution from family or relatives (31%, 27%, and 27%, respectively). They also resort to extended family members (brothers, cousins, aunts and uncles, and parents) when an illness or death-related problem arises. Datum respondents often mentioned community fundraising events as a source of social support. For instance, respondents mentioned them in the event of floods (20%), earthquakes (18%), vandalism (21%), illness of a family member (19%), serious illness (21%), theft (19%), work-related accident (23%), and traffic accident (24%). FGD respondents often mentioned saving groups as a social support mechanism to increase savings.

Some respondents mentioned using informal lenders to cope with an unexpected event, but this wasn’t addressed in the Datum survey. Respondents would only turn to a financial institution for a loan in case of an earthquake (32%), car robbery (30%), death of a family member (26%), or a serious illness (22%).

In regions where community bonds are still strong, people use raffles, “community collections,” and fundraising barbecues. In the IMASEN study, segments C and D in the FGDs mentioned community events

²⁵ According to the Financial Culture Survey, out of 10 people, 4 prefer to save their money under the mattress or to participate in saving groups.

as the main option for coping with health problems or the death of a family member. This strategy is most prevalent in rural communities or in urban communities with a concentration of populations from segments C, D, and E (such as in Villa El Salvador in Lima).

Expenditure priorities

Family budgets vary according to the family profile. In general, FGD respondents (from segments C and D) identified the following as fixed expenses: food, housing, public utilities, services, and education. Food absorbs most of the family budget. Among young people, transportation and education are the main fixed costs. The main nonessential expenses are mobile phone airtime, clothing, and leisure. Expenditures vary depending on whether the individual has a family with young children or is young and has no family obligations or dependents. In some cases, people over 35 realize that they must budget for the care of their elderly parents, but respondents rarely mentioned allocating resources for an insurance product.

Awareness and perceptions of insurance and of insurance companies

Most respondents in the Datum study associate “insurance” with “health insurance,” notably in the context of public health insurance products offered in Peru through the SIS and EsSalud. When Datum asked if they had paid for any insurance policies for themselves or anyone else, 51% of the respondents in segments C and D answered “yes” and 49% answered “no.” Out of the 51% who answered “yes,” 80% mentioned that the insurance policy was still valid. When asked about the type of insurance they had purchased, they mentioned EsSalud (63%), life insurance (24%), traffic accident insurance (SOAT, 12%), health insurance or EPS (7%), credit or debit card insurance (6%), house insurance and vehicles (4%), mortgage credit life insurance (2%), and SIS and Finisterre (Mapfre, 1%).

Respondents do not differentiate between microinsurance and insurance products. They are not aware of the legal framework or the segmentation of the insurance market between conventional insurance and microinsurance. During FGDs, the word “microinsurance” was not mentioned.

What do they know and what have they heard about insurance? Respondents to the Datum survey said that they know about or have heard of the following types of insurance: health insurance or EPS (88%), SOAT (87%), life insurance (86%), and car and education insurance (76%). When asked about home or residential insurance, only 36% said that they know about or are aware of it (figure 7).

They see insurance as an intangible product with no clear benefits. In the FGDs, some of the participants mentioned that they had not bought a funeral policy because they would rather save their money. The fact that products lack an endowment component is a big issue for the target market, as they do not perceive the value in such policies.

Clients also indicated that they need bundled products that offer some value-added services.

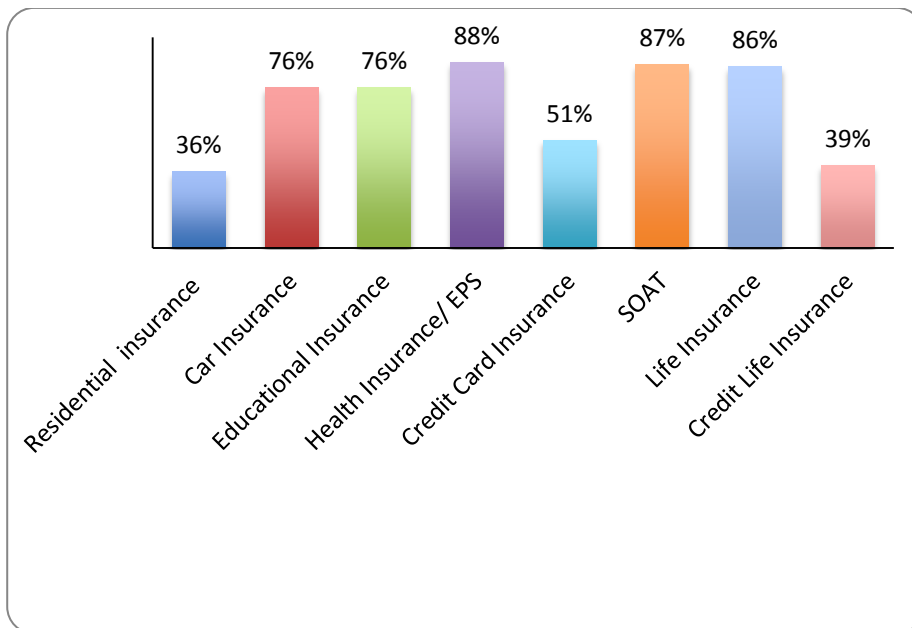
They also do not think that insurance is a solution for them. When asked why they had not bought an insurance policy, of 400 respondents, 28% mentioned that “they do not need one,” 25% said that “the costs are too high,” 12% said that “they don’t trust insurance in general,” and another 12% mentioned that “insurance does not fit their needs.” While 7% mentioned that “insurance has too many requirements,” 6% said that they do not know where to purchase a policy. Only 3% mentioned not having disposable income to afford one, and 2% mentioned lack of understanding as a barrier (Datum International 2012).

They said that they do not read the contracts. Datum reports found that out of the 400 clients who had bought an insurance policy from an insurance company, 14% reported that they had not received the policy documentation. Out of the 259 respondents who had received their certificates, 28% said that they had not

read the document and 58% said that they had read parts of it. Respondents said that documents should be simpler, with bigger letters and simpler vocabulary.

Figure 7. Insurance awareness

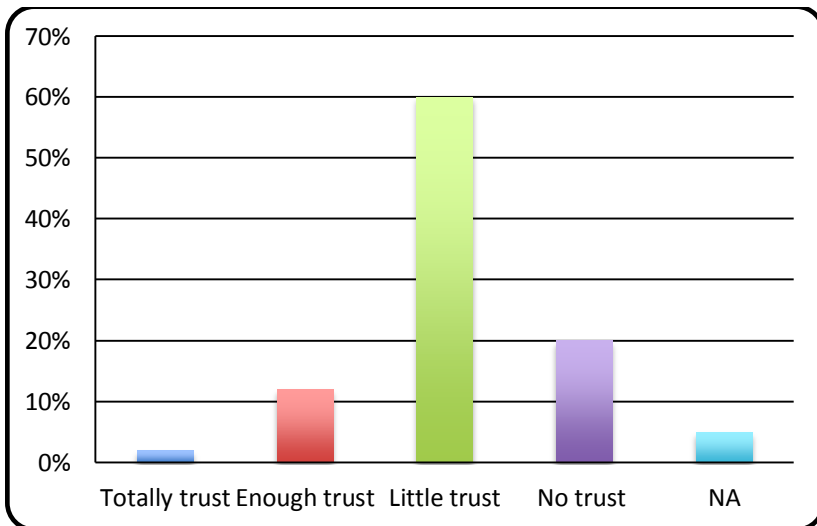
Source: Datum International 2012. Number of respondents: 1,640.



Moreover, they do not trust insurance companies. Among respondents to the Datum survey, 60% said that they have little trust in insurance companies (figure 8).

Figure 8. How much do you trust insurance companies?

Source: Datum International 2012. Men and women, 18–70 years old, from all socioeconomic levels in urban, semi-urban, and rural Peru.



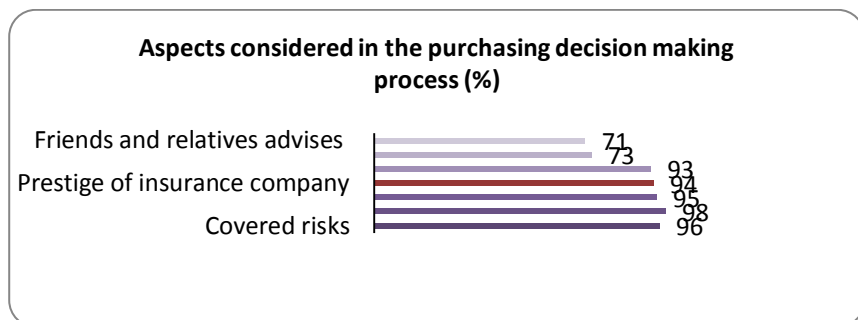
People are often unaware of who is providing insurance coverage. Indeed, when they purchase a policy at the bank, they tend to believe that the bank is the risk carrier or at least is backing the insurance coverage. They do not understand how the insurance business works and think that insurance companies make a profit by not paying out on claims. However, La Positiva, Pacífico, and Mapfre have a more positive image than Rimac (IMASEN 2013). Moreover, the prestige of a particular insurance company has a great impact on the decision-making process (figure 9), with 94% of respondents saying that they

consider it “very important or important.” Out of the 400 respondents who reported having a private insurance policy, 68% said that they believe that the insurance company would comply with the contract, but 58% also said that they do not believe that the insurance policy would cover everything mentioned to them during the enrollment process, and 53% said that the premium is too high in comparison to the benefits provided (Datum International 2012). Some respondents in the IMASEN study confused insurance companies with pension fund administrators. Such linkages do not benefit insurance companies, as dissatisfaction with such institutions is high.

FGD respondents did not know that the SBS supervises insurance companies. When they were informed that the SBS supervises insurance companies, respondents did not associate this fact with an increased level of trust in the companies. People tend to believe that the government is a weak regulator and that no party acts as a market watchdog.

Figure 9. Level of importance in the decision to purchase insurance (%)

Source: Datum International 2012. Results based on the clients who mentioned having an insurance policy with a private insurance company (400 out of 1,640). The result is the sum of the percentage of answers “very important and “important.”



People said that they consider “savings banks” to be less secure and stable than banks, unless they have a strong corporate image in the region. The BCP and Banco Continental were mentioned as positive examples of banks. People from segments C and D are aware that deposits are guaranteed by the government, and this increases their level of trust. This explains, to a certain extent, why people trust big banks more than savings banks, the CMACs, or the CRACs.

They have very little awareness of credit life insurance products. Only 51% of the respondents said they know about insurance that covers credit cards, and only 39% know about mortgage insurance. Taking into account the 830 respondents of the Datum survey who reported having an insurance policy, only 8% have credit card insurance and 3% have mortgage credit life insurance. They are aware of the SOAT, which they perceive as being beneficial, but in need of improvement.

People mentioned various obstacles to using private insurance. They said that private health and funeral insurance is not always available outside metropolitan Lima and that they often must travel to the capital to undergo treatments or for an appointment. They complained about age limits, waiting periods, and affordability. They mentioned that if one does not have a formal job, it is difficult to pay the premiums, as they perceive the available options on the market to be expensive.

Factors that affect the demand for insurance products

Demand for insurance is affected by poor accessibility, reduced capabilities, acquired behaviors, cultural aspects, and religious beliefs. Large parts of the country are inaccessible, making communications difficult. Five departments have no insurance companies at all. Isolation, the absence of insurance companies, and lack of knowledge of financial and insurance services create great challenges to market expansion. Informality and low educational attainment contribute to the lack of knowledge about insurance contracts and claims procedures or forms. Financial literacy, defined as possessing the skills and knowledge on financial matters to confidently take effective action that best fulfills an individual’s personal, family, and global community goals, is rare. Until people understand insurance and the benefits it can bring, demand for insurance will remain low. Finally, Peru’s indigenous peoples are particularly difficult to reach because of language difficulties, geographic inaccessibility, and high poverty. They have very limited access to financial services and insurance, and cultural beliefs may make it difficult to collect on a claim. For example, religious beliefs may prevent relatives from authorizing autopsies in the event of death of a policyholder. This can derail the processing and paying claims.

4. Supply of insurance products to segments C, D, and E

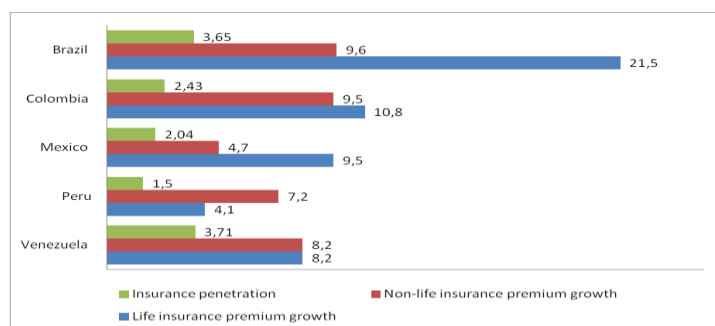
Of the 172 insurance products that are accessible to segments C and D, 35 are registered as microinsurance with the SBS,²⁶ 117 are mass insurance products included in the bancassurance register (bancassurance marketers distribute these products), and 15 are mass insurance products included in the marketer register (marketers distribute these products). In addition, there are three agricultural products: two have government involvement (catastrophic agricultural insurance and insurance for climate change adaptation), and one is registered as conventional insurance (commercial agricultural insurance, or SAC).

Insurance context

The growth of premiums is relatively high in Peru, but not as high as some other countries in the region (figure 10).

Figure 10. Premium growth and insurance penetration, 2012

Source: Swiss Re 2013.

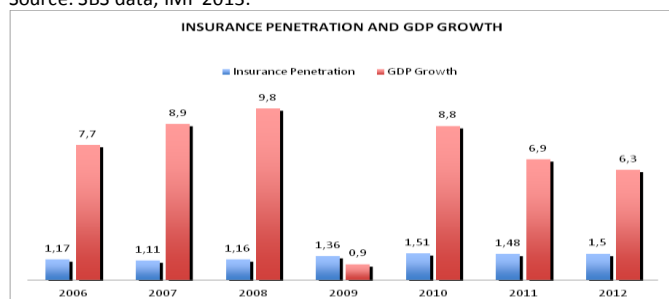


Peru's insurance sector has been expanding, with an average premium increase of 16% per year (between 2006 and 2011) and an increase of more than 100% in net premiums (between 2008 and 2013). From May 2012 to May 2013, annual growth of insurance premiums reached 14.5%. For the first half of 2013, total premiums reached US\$1,549 million, representing an increase of 17% compared to June 2012.

Despite this growth, insurance penetration in Peru is one of the lowest in the region, accounting for only 1.5% of total GDP (figure 11). In 2009, when Peru reported its lowest GDP growth over the previous seven years, insurance penetration rose from 1.2% in 2008 to 1.4% in 2009; since then, it has been rising steadily.

Figure 11. Insurance penetration and GDP growth, 2006–12

Source: SBS data; IMF 2013.



²⁶ Even though 40 microinsurance products are registered as such with the SBS, we include only 35 to avoid duplication of 5 products that are included in the other two registers (bancassurance and marketers). Of these products, 4 are from La Positiva (Divino Seguro, Microseguro Andes Protege, Microseguro ASOMIF, and Microseguro Riesgo Accidentes y Salud) and 1 is from Pacífico (Familia Protegida).

Type of insurance products

Nonlife insurance is the largest product line, followed by insurance products related to private pension schemes, individual life, accidents, and illness.

Within nonlife and life insurance, there are four product lines: nonlife, life insurance, insurance products related to private pension schemes (PPSs),²⁷ and insurance for accidents and health. Nonlife was the largest product line (by premiums) between June 2012 and June 2013, followed by products related to private pensions, life, and then accidents and illness. This structural trend has been similar over the last three years, as shown in figure 12.

Since 2000, all product lines have been growing, and growth in nonlife and life insurance has been outstanding, with rates of 137% and 132%, respectively, between 2006 and 2012 (figure 13).

Within nonlife insurance, risk lines covering technical risks, such as multiple risks for contractors, mechanical breakdowns, and earthquakes, among others, have been growing largely due to economic growth. Product lines such as vehicles, “miscellaneous,”²⁸ theft and assault, and agriculture have also been growing (figure 14) due to the increasing ownership of vehicles.

Figure 12. Share of premiums, by product line, 2010–13

Source: SBS data.

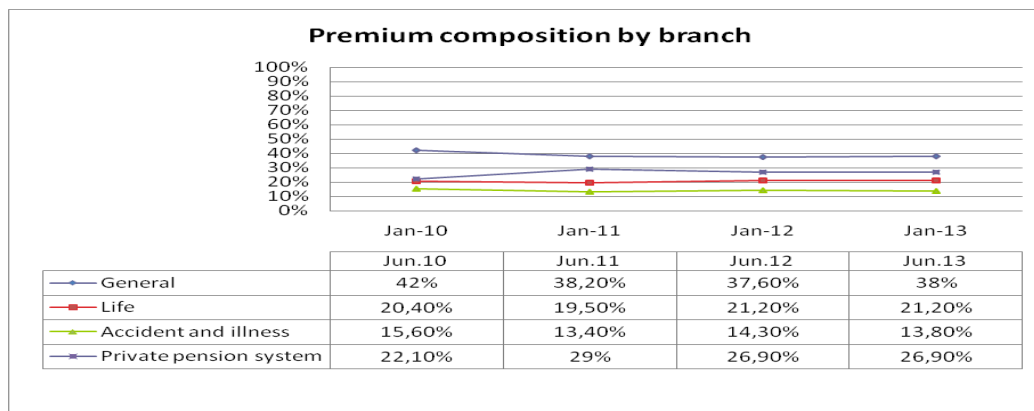
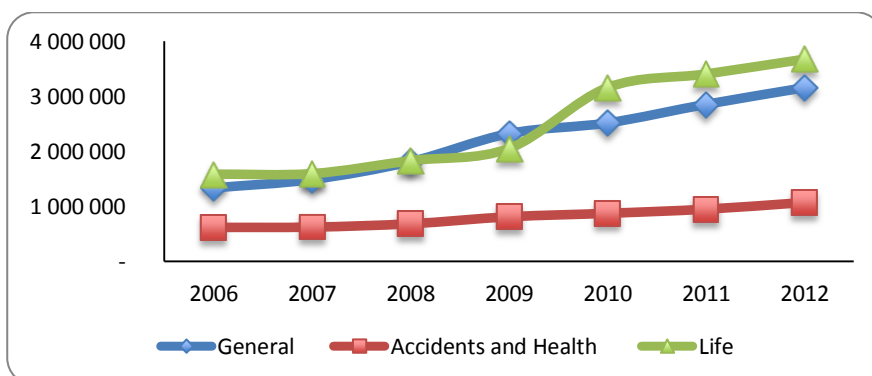


Figure 13. Growth of insurance, by product line, 2006–12

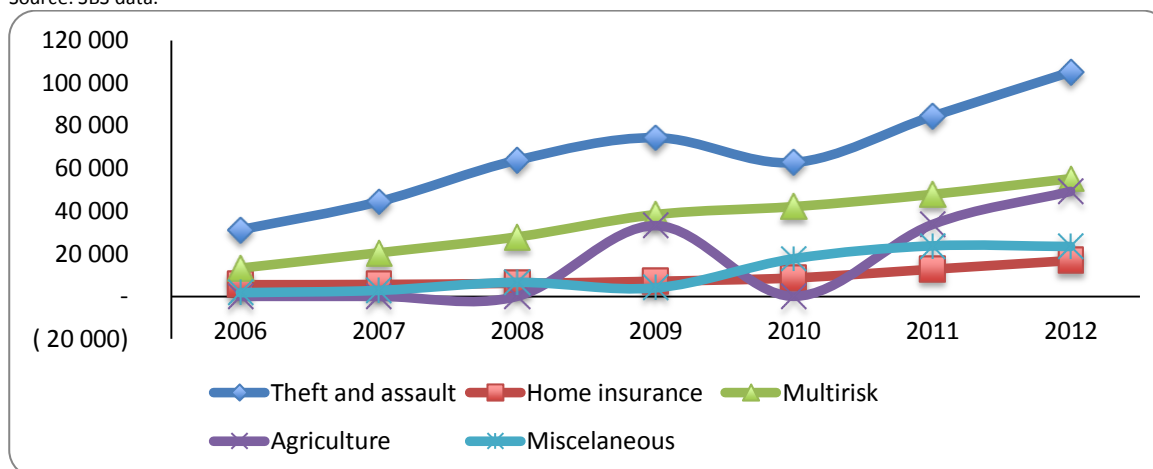


²⁷ The PPS has three insurance products that accumulate savings for members: (a) retirement annuity, which can be for people who retire at 65 years old or more or for those who retire early, (b) life insurance that provides death benefit payments to beneficiaries of the affiliated person, and (c) disability insurance.

²⁸ According to the SBS, miscellaneous products include unemployment insurance, extended warranty insurance, indexed insurance for interruption to business activities, insurance for parcels sent by post, and others.

Figure 14. Growth of general insurance products, 2006–12

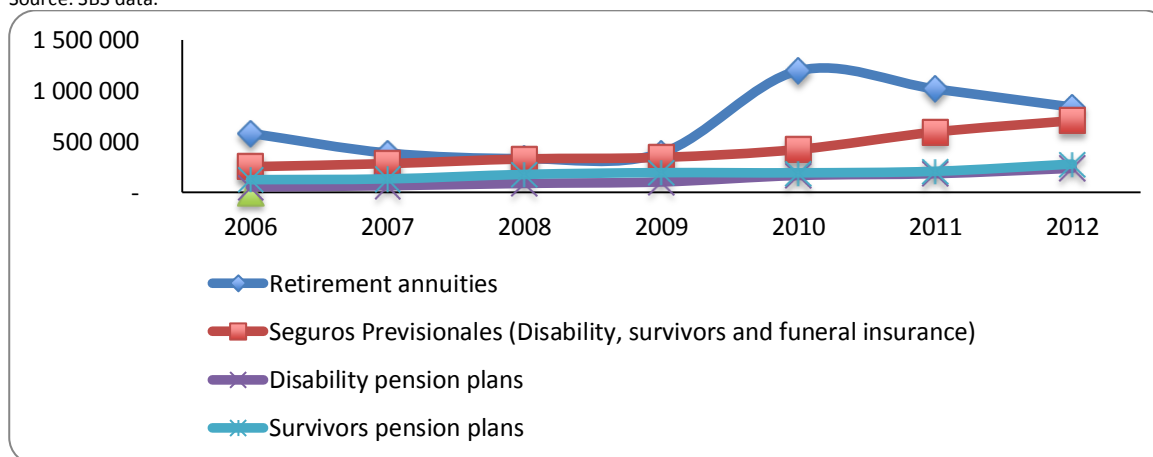
Source: SBS data.



Growth in life products is due to the growth of insurance products related to pensions and credit life. With regard to pensions, an early retirement regime was implemented in 2003 and 2009,²⁹ with retirement annuities rising 219% between 2002 and 2003 and 210% between 2009 and 2010 (figure 15). Credit life grew an outstanding 504% between 2006 and 2012 and maintained an average growth rate of 35% per year during the same period (figure 16). This growth spurt could be due to the ability, since March 2005, of financial institutions to distribute insurance products and rising demand for credit.

Figure 15. Growth of insurance products related to the PPS, 2006–12

Source: SBS data.



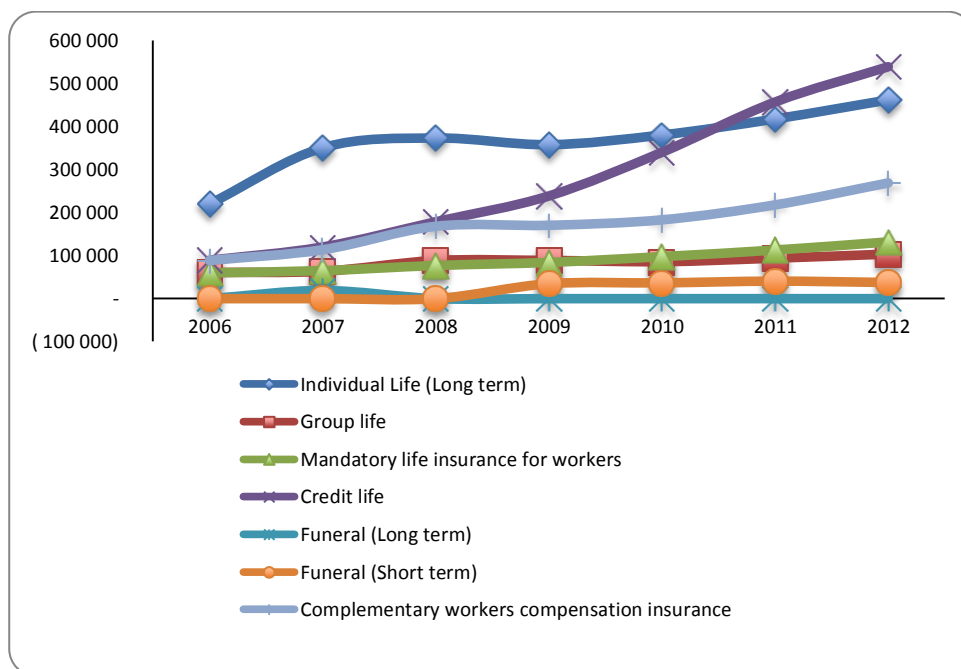
Also growing are long-term individual life insurance and complementary workers' compensation insurance, which grew 109% and 203%, respectively, between 2006 and 2012. The reason behind this growth is the rising demand for life insurance products among the middle- and low-income segments of the population and growth in marketing efforts and the sale of products that include insurance. Moreover, the development of industrial activity in Peru has increased the number of workers in activities that are considered risky, such as mining, textile manufacturing, and steel production.

Growth has been less dramatic, but still positive, for the other lines of risks (such as illness and accidents). In particular, accidents and health insurance grew 14% in 2012 (Marsh 2013).

²⁹ The regime allows people to retire early (minimum of 55 years old) if they were unemployed for 12 months before submitting the request.

Figure 16. Growth of life insurance products, 2006–12

Source: SBS data.



Premium growth in certain product lines

Certain product lines are expected to grow as a consequence of recent and forthcoming legal changes and favorable economic development. The growth of these lines is extremely relevant for the growth of microinsurance. First, complementary workers' compensation insurance (SCTR) is expected to grow as workers' compensation becomes compulsory for all occupations over the next couple of years. Until then, it is only compulsory for high-risk activities. Second, health insurance is expected to grow, given implementation of the FLUHI, which recognizes the right of all Peruvian residents to have access to affordable and suitable health insurance. Private health insurance is seen as a complementary tool for reaching that objective. Third, life insurance is expected to continue growing at its current pace as a consequence of Peru's economic growth and the increase in the number of workers in the formal sector, which will be followed by an increase in life insurance products for workers and insurance products related to the SPP. Finally, vehicle insurance and SOAT are expected to grow, along with the growth in sales of affordable family vehicles (BBVA Research 2012).

Insurance products accessible to segments C, D, and E

Figure 17 shows the insurance products that are accessible to people in socioeconomic segments C, D, and E, including products subsidized by the government if insurance practices are followed: (i) those registered as "microinsurance" products with the SBS; (ii) voluntary and "mandatory"³⁰ insurance products distributed by MFIs that target socioeconomic levels C and D (including credit life); (iii) products that are mandatory by law and could cover persons in socioeconomic levels C, D and E (such as worker's compensation); (iv) voluntary products that are offered to segments C, D and E through alternative distribution channels (such as health insurance through the workplace); (v) products offered to segments C, D and E providing similar benefits to insurance products (such as prepaid funeral insurance); and (vi) insurance products offered to

³⁰ We use the word "mandatory" in inverted commas given that, as we will see later, the most common "mandatory" product offered by these institutions is credit life, which is not mandatory by law, but is required by financial institutions that provide loans.

segments C, D and E where the government is involved in their provision (such as catastrophic insurance for agriculture).

Products registered as microinsurance products with the SBS

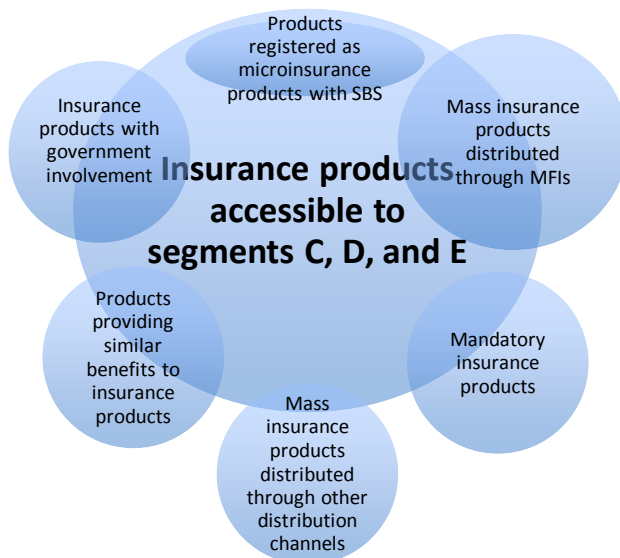
The SBS introduced the concept of microinsurance in 2007. According to the SBS, 40 products are currently registered as microinsurance products, but the number of companies registering microinsurance products with the SBS is declining. Whereas in 2008 six insurance companies registered 27 microinsurance products, in 2011 only three companies registered 7 new microinsurance products (figure 18). Of the 27 microinsurance products registered in 2008, 16 had not insured anyone by 2011. Of the 88 microinsurance products registered between 2007 and 2011, only 52 had insured someone. Thus approximately 40% of products registered did not issue any insurance policy. This could mean that the products were poorly designed.

Other voluntary and “mandatory” insurance products reaching segments C, D, and E

Most MFIs distribute insurance products to their clients, but they do not register them as microinsurance with the SBS.

In analyzing mandatory insurance products, we found that three of them could reach socioeconomic segments C, D, and E: insurance products for traffic accidents (SOAT), life insurance for workers, and workers’ compensation for high-risk professions.

Figure 17. Microinsurance market in Peru



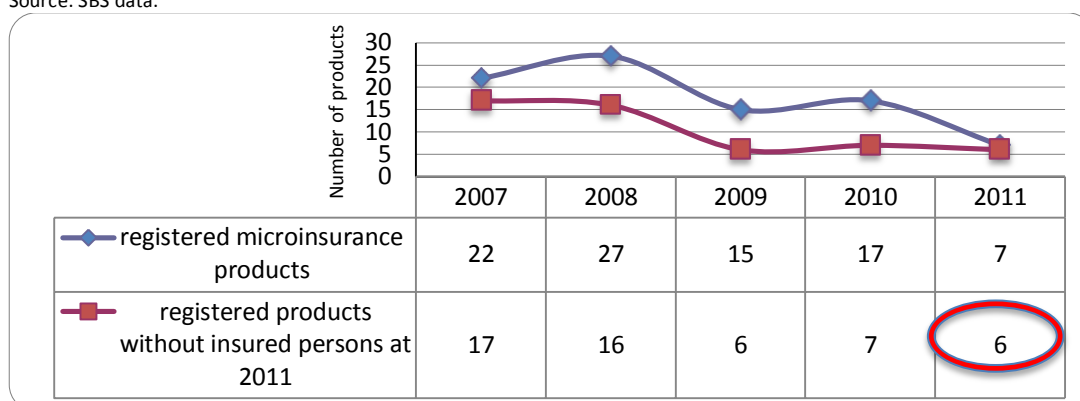
With regard to SOAT, in 2012, the APEIM noted that 2%–13% of segments C, D, and E had a car; between 8% and 10% had a motorcycle; and between 4% and 7% had a moto-taxi. Motorcycle ownership is greater among these segments than in wealthier segments of the population. The potential for SOAT is great.

With regard to life insurance for workers, all workers, including blue-collar workers, have the right to receive life insurance (group insurance) paid for by their employer after four years of work. Employers can subscribe to this group insurance after the third month of work. This product covers natural and accidental death. In the case of natural death, beneficiaries receive a multiple of 16 times salary, and the amount is based on the worker’s average salary in the last quarter before death. In the case of accidental death,

beneficiaries receive a multiple of 32 times salary. The insurance must also cover total or permanent accidental disability.

Figure 18. Registration of microinsurance products, 2007–11

Source: SBS data.



Workers’ compensation insurance is mandatory for high-risk activities and thus reaches many workers in segments C, D, and E. It covers (i) support and preventive advice; (ii) medical assistance, hospitalization, and surgery, until the person recovers or is declared permanently or temporarily handicapped or dead; (iii) rehabilitation and work readaptation; and (iv) prosthesis and other necessary equipment. The employer is the policyholder and can choose between EsSalud and EPS. It also provides disability, death, and funeral coverage from an insurance company.

Table 8. Activity sector, by socioeconomic segment

Source: INEI data.

Activity sector	Poor	Extremely poor	Not poor
Agriculture, fishing, mining	54.1%	79.6%	17.8%
Manufacture	8.6%	5.0%	11.1%
Construction	5.7%	2.5%	6.1%
Trade	11.7%	4.5%	21.1%
Transport and communications	5.1%	2.3%	8.5%
Services, such as restaurants, hotels, banks, public sector, health, education, utility providers	14.8%	6.1%	35.4%

All employees must be affiliated with a pension regime. PPS insurance products are available in the private pension system, and employees from socioeconomic segments C, D, and E may have access to them.

Workers in the formal economy must be covered by health insurance. Indeed, all Peruvian residents “must” be affiliated with a health insurance scheme, and the government has to guarantee access. The most common schemes available in the workplace are contributory health insurance schemes offered either by public health insurance (through EsSalud) or by private health insurance (by EPSs).

Products are also accessible through “alternative distribution channels.”³¹ In this group, we include products that are distributed by registered “marketers” with access to these segments. Insurance-like products include products akin to funeral insurance offered by UNICAs, prepaid funeral plans, products similar to credit life insurance that are provided by small MFIs and most cooperatives, emergency funds for a wide range of unforeseen events offered by cooperatives, and products akin to health insurance offered by health care providers.

Finally, the government may be involved in the provision of insurance products that aim to confront

³¹ Alternative distribution channels are different from traditional distribution channels such as financial institutions and professional insurance intermediaries such as brokers.

catastrophic events and climate change risks by creating PPPs or by acting as risk carrier itself through public entities such as EsSalud and the SIS. Among the insurance products that are offered to segments C and D, we exclude health products that are offered by EsSALUD and the SIS.

Risk carriers

Insurance companies are the main providers of microinsurance, but other entities, which are not licensed insurance companies, also act as risk carriers of insurance-like products.

Insurance companies

Only licensed, private companies are allowed to act as risk carriers in Peru.³² There are 14 licensed insurance companies: 4 are involved in both general and life insurance (Ace, Cardiff, Rimac, and Interseguros), 5 specialize in general insurance (Pacífico, La Positiva, Mapfre Peru, Secrex, and Insur), and 5 work exclusively in life insurance (Pacífico Vida, La Positiva Vida, Mapfre Peru Vida, Sura, and Protecta).

Of these 14 companies, only 9 offer products that are registered as microinsurance products with the SBS (table 9). During our consultations, the insurance companies said that they are interested in offering insurance to segments C, D, and E and are motivated to do so by both financial and social considerations.

Table 9. Insurance companies offering microinsurance

Name of insurance company	Insurance companies offering insurance products accessible to segments C, D, and E	Insurance companies offering products registered as microinsurance	Number of microinsurance products registered (December 2012)
Ace	X	X	4
Cardiff	X	X	1
Rimac	X	X	1
Interseguros	X	Not applicable	0
Pacífico	X	X	4
La Positiva	X	X	10
Mapfre Peru	X	Not applicable	0
Pacífico Vida	X	X	3
La Positiva Vida	X	X	12
Mapfre Peru Vida	X	Not applicable	0
Sura	X	X	3
Protecta	X	X	2
TOTAL	12	9	40

Two insurance companies—Rimac and Pacífico—dominate the insurance market in Peru, particularly for life insurance (figure 19). However, their dominance is declining gradually (from 68% in 2008 to 60% in 2012), as foreign insurers enter the market, such as Group Sura (a Colombian insurance company with experience in microinsurance) and Aseguradora Magallanes (a Chilean company). ILC (Chile), Zurich (Switzerland), Chartis (United States), Itaú (Brazil), and Royal and Sun Alliance (United Kingdom) are expected to enter the Peruvian market during the course of next year.

The life insurance space is more competitive, with numerous specialized companies offering cover. These include Interseguro and Sura (insurance products related to the SPP), La Positiva Vida and Mapfre Peru (life insurance and funeral insurance), and Ace, Protecta, and Cardiff (microinsurance and affinity products). Protecta qualifies as a specialized microinsurance company, even though the SBS does not specifically license microinsurance companies.

For insurance products registered as microinsurance with the SBS, we found that no single company, or even two companies, has a dominant market position with regard to either number of subscribers (figure

³² The General Law of Financial and Insurance Services allows Peruvian residents to contract insurance abroad with foreign insurance companies.

20) or number of products (figure 21). The market is shared somewhat equally.

Figure 19. Concentration of Peruvian insurance market, by company, 2003–13

Source: SBS data.

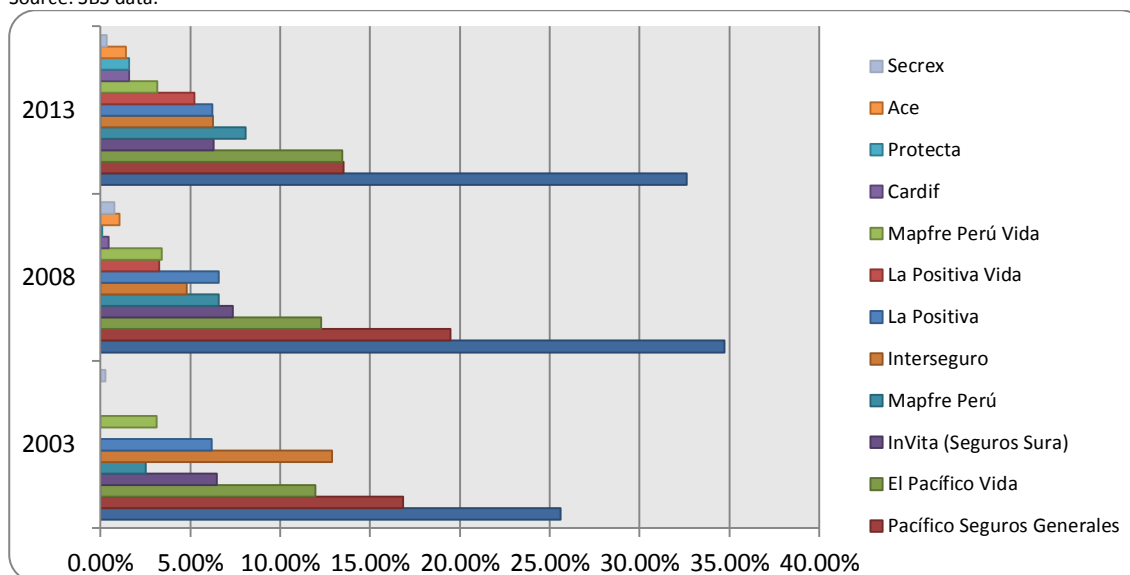
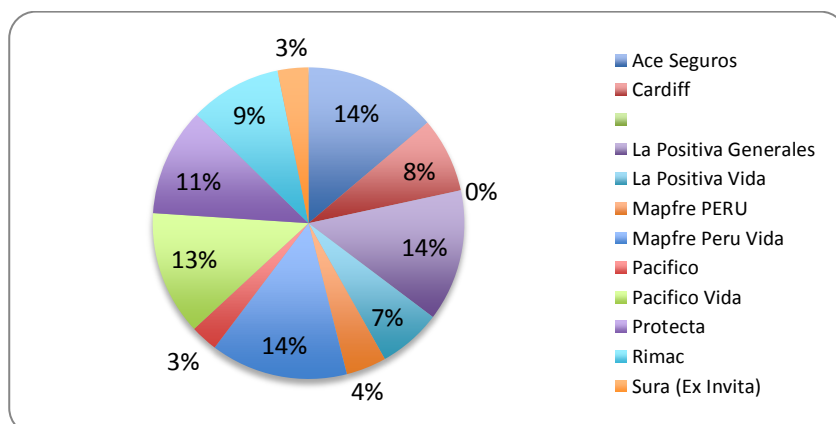


Figure 20. Share of microinsurance market, by number of subscribers

Source: Authors' database.



For products that are registered as microinsurance with the SBS, La Positiva Seguros Generales and La Positiva Vida lead the market based on the number of products. However, based on the number of subscribers,³³ Pacífico has the most policyholders (figure 22): 22% of all policyholders for products registered as microinsurance with the SBS. Pacífico edges Ace into second place (19%), followed by La Positiva Vida (17%) and La Positiva and Sura (12% each). Based on the number of products, 75% of policyholders are insured for only 10 of the 40 insurance products registered as microinsurance with the SBS.

³³ According to the SBS, in 2012, 637,061 persons were insured by insurance products registered with it as microinsurance, reporting premiums of US\$1,761,686.

Figure 21. Number of insurance products accessible to segments C, D, and E

Source: SBS data.

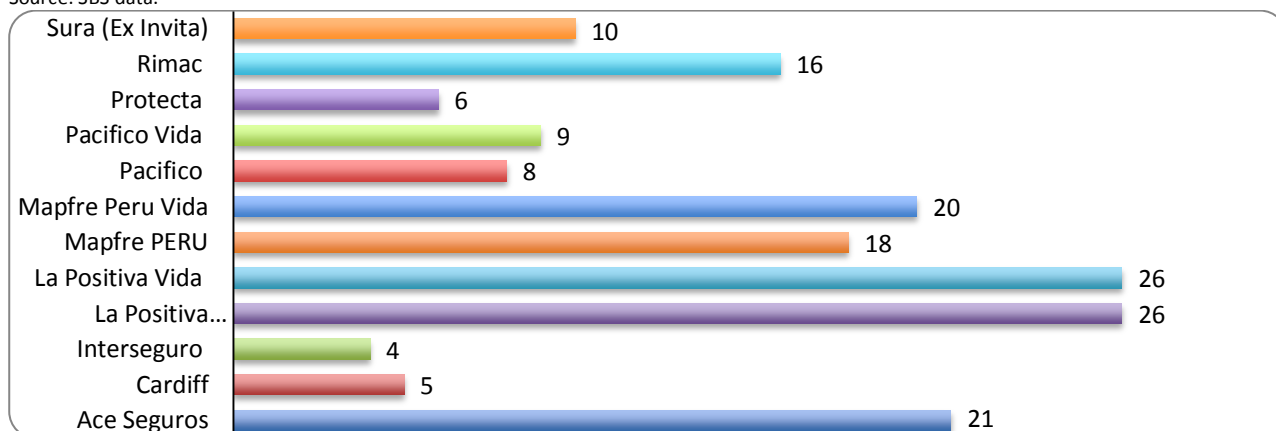
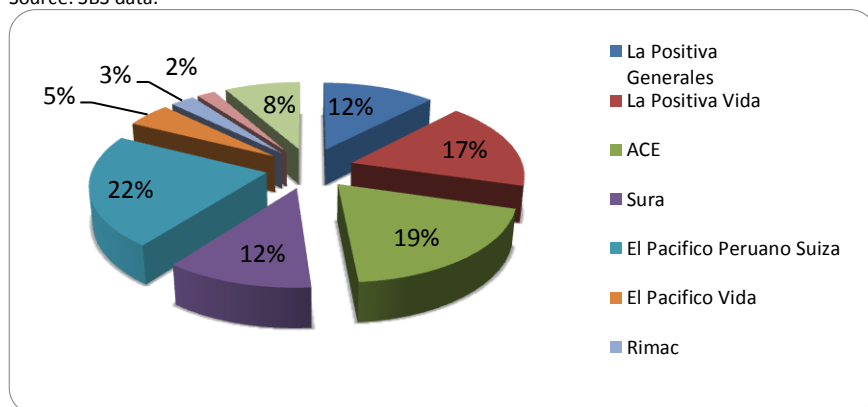


Figure 22. Percentage of insured people covered by an insurance product registered as microinsurance with the SBS, by insurance company

Source: SBS data.



Other risk carriers

Besides insurance companies, other entities or organizations also provide insurance-like products to segments C, D, and E. These products are not considered to be insurance products under the Peruvian regulatory framework, primarily because the risks are limited to members of common-bond groups. However, they offer benefits similar to insurance products. The proportion of these products in the total microinsurance market is low. These entities include community-based organizations, funeral service providers, health care providers, and MFIs offering credit life insurance.

First, we found a range of community-based organizations, such as the UNICAs, CACs, service cooperatives, mutual associations, and associations of mutual support. Some UNICA networks provide coverage for funeral expenses for up to US\$360 that costs between US\$3.60 and US\$5.43 per year.

Most cooperatives (CACs and service cooperatives) also offer emergency or solidarity funds to their members in the event of the death of a relative or other emergency. These funds, which are similar to informal risk pooling, are permitted by the SBS and FENACREP only if they are offered exclusively to their members. In 2012, approximately 1.5 million families were served by cooperatives in Peru.

Mutual associations are associations of public servants or associations of professionals that, through social contingency funds or support funds, provide mutual benefits, such as pension plans and financial support in event of the death of a relative. To obtain benefits, members must pay their membership dues on time, so that when an event occurs, the relevant person will receive a fixed amount depending on the event.

However, the “economic fund” of the member is a maximum of US\$1,850. In Peru these types of associations have approximately 450,000 members.

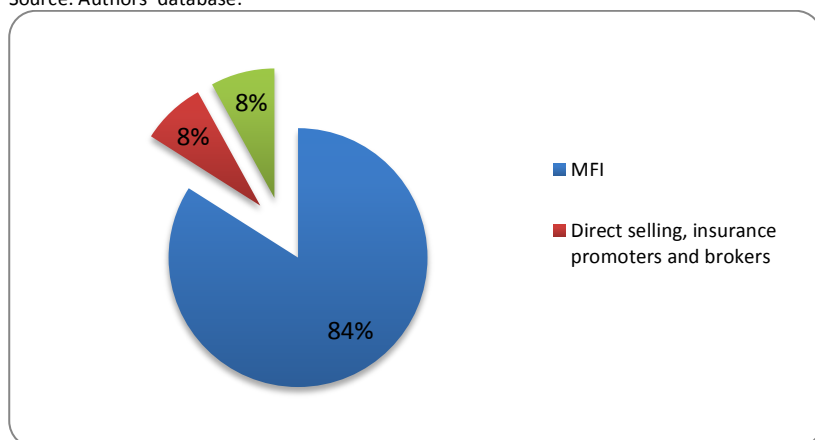
Second, we found funeral service providers that offer prepaid funeral plans, which resemble insurance products. Such products cover all expenses related to the death of the insured party. Finisterre used to provide prepaid funeral plans before being acquired by Mapfre Seguros in 2001. Serviperú, a service cooperative, has a funeral service provider, Funerales Los Olivos, that provides prepaid funeral plans. These plans are open to the public, but they are also offered to cooperatives and mutual associations. In addition, the family safeguard product of Serviperú also includes health care insurance offered by La Positiva. It covers funeral expenses up to approximately US\$2,200.

Third, health care providers, which the FLUHI describes as prepaid health care providers, offer prepaid health care services. Among these are private clinics and specialized health care providers (for instance, Oncosalud, which specializes in cancer). Prepaid health care providers are regulated and supervised by the SUNASA. In general, their prices are prohibitive for segments C, D, and E. However, some are starting to offer more affordable plans. In addition, institutions can self-insure.

Fourth, some MFIs provide credit life insurance cover through emergency funds. In these cases, the premium is paid by adding an additional amount to the credit installments. As shown in annex 3, the MFIs that are still providing this kind of self-insurance are small, generally either NGOs or CACs. Most MFIs start with emergency funds before offering credit life insurance through a licensed insurance company.

Figure 23. Channels used to distribute insurance products to segments C, D, and E (% of insurance products offered to segments C, D, and E)

Source: Authors' database.



Distribution

Insurance companies use a variety of distribution channels to reach segments C, D, and E. They rarely use direct sales or traditional insurance brokers (figure 23). They use insurance promoters mostly for insurance products marketed to segments A and B and, only very occasionally, to segments C, D, and E. Indeed, MFIs are by far the most used channel for distributing insurance products to segments C, D, and E (84%), but alternative distribution channels are used as well.

Direct sales

We found little evidence of direct sales of products to segments C, D, and E. Direct sales could be

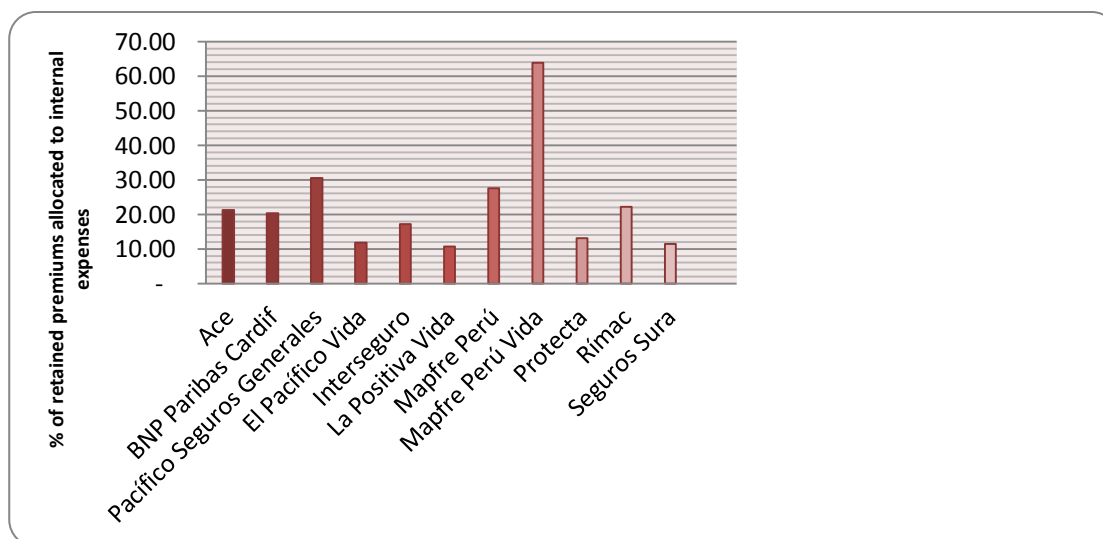
undertaken at insurers' "offices,"³⁴ at "sales points,"³⁵ through "distance selling,"³⁶ and through "insurance promoters" (agents for mass insurance). However, we did find evidence of distance selling, notably by utility service companies. In such cases, the product is sold through outbound call centers. Some insurance companies find telemarketing to be a good distribution channel. Besides the fact that the cost is prohibitive for microinsurance, data protection regulations do not allow the sharing of client databases without the client's consent.

Insurers' offices and sales points could play a big role in rural areas, given the scarcity of insurance companies. Out of 24 departments and Callao Constitutional Province, insurance companies are only represented in 10. Among these 10 departments, 6 are in the coastal region, 2 in the Andes, 1 in the Amazons, and 1 between the Andes and the Amazons. The ability of insurance companies to reach segments C, D, and E in these areas is extremely limited.

Insurance promoters are rarely used to distribute insurance products to segments C, D, and E. Insurance promoters were introduced in 2005 and defined as being "agents" of insurance companies. However, regulation limited their use to mass insurance products. Few insurance companies have their own sales force for distributing insurance products to segments C, D, and E. Indeed, we only found evidence of them in Pacífico Vida, Rimac, Mapfre Vida, Mapfre, Sura, and Interseguro. Mapfre has developed a strong sales force of insurance promoters because the company is not part of a financial conglomerate and cannot rely on a particular base of clients. Mapfre's decision has entailed significant investments, and Mapfre has the highest index of administrative management among all insurance companies involved in microinsurance in Peru. This index represents the percentage of the retained premiums that are allocated to pay internal expenses, such as insurance promoters (figure 24).

Figure 24. Index of administrative management per insurance company

Source: SBS database on insurance companies indicators 2013.



Third-party distribution

Since 2005 insurance companies have been authorized to distribute mass insurance products through financial institutions (bancassurance). Financial institutions, non-banking institutions, and CACs authorized

³⁴ Offices are principal offices, agencies, branches, and shared premises.

³⁵ Sales points are the information and commercialization centers where insurance companies, through their staff, offer information and sell insurance products. These sales points must be authorized by the SBS.

³⁶ Distance selling includes selling via telephone, Internet, or similar mechanisms.

to serve members only, among others, can act as marketers of microinsurance products. In this context, MFIs have been distributing insurance products to segments C, D, and E by acting as (i) policyholders of group insurance on behalf of their clients; (ii) “representatives” of the insurance company that commercialize individual insurance products among its clients; (iii) policyholders when the financial institution takes out credit life insurance on its clients; or (iv) microinsurance marketers (if it is group insurance, they act as policyholders). Insurers consider MFIs to be the most efficient and effective channel of distribution, as insurance companies can use their transactional platforms and sales force to reach segments C, D, and E.

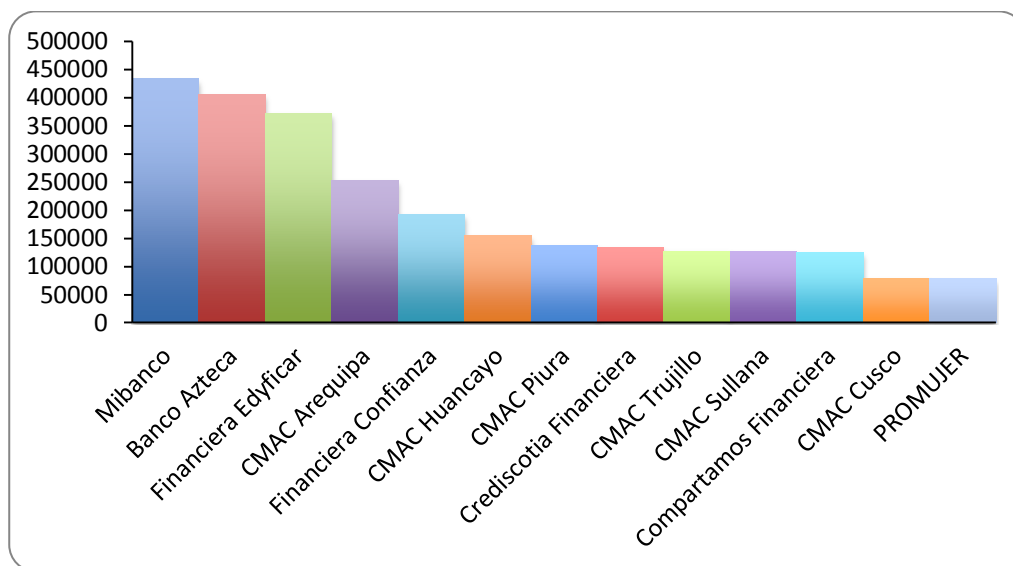
Microfinance institutions

We categorized MFIs by highlighting their size, the strength of their relationship with their clients, and their links with insurance companies.

Insurance companies often approach MFIs with a large number of clients to create partnerships. Because of their large client base, they are in a powerful position to negotiate not only their commissions, which can be particularly high (up to 60% of the premium, in some cases), but also the products they want to offer to their clients. Of the 13 MFIs with the largest number of clients, 12 are in categories 1 and 2, as shown by comparing table 10 with figure 25.

Figure 25. Size of MFIs, by number of clients

Source: SBS data.



The strength of their relationship with their clients is also important. Some MFIs, particularly NGOs, have sought to improve their insurance portfolio by designing products that have added value for their clients. Associations such as ASOMIF, COPEME, and PROMUC have played an important role in representing these MFIs and helping them to negotiate with insurance companies.

Finally, MFIs have important links with insurance companies. Bancassurance rarely reaches segments C and D. Only two insurance companies—Protecta and Pacífico—are part of a financial conglomerate that reaches segments C and D. Protecta is part of the ACP Group, which also owns MiBanco, the largest MFI in the country. In July 2013, it had 432,491 borrowers. Pacífico is part of the Credicorp Group, which is a group holding company comprising BCP and Financiera Edyficar, the third largest MFI in Peru, with 371,943 borrowers in July 2013. Protecta and Pacífico benefit considerably from the client base of the MFIs that form part of their respective groups.

Based on these characteristics, we classify MFIs into the following four categories (table 10):

(i) *Category 1: MFIs that offer “sophisticated” insurance products, such as voluntary insurance products, to their clients.* Out of 56 MFIs and FENACREP, 16 fall in this category.

(ii) *Category 2: MFIs that offer credit-linked insurance products with additional benefits to their clients.* Out of 56 MFIs (and FENACREP), 9 are included in this category.

(iii) *Category 3: MFIs that offer basic credit life insurance products.* Out of 56 MFIs, 25 are in this category, including 3 CACs. In addition, FENACREP also distributes credit life insurance products to its affiliated CACs.

(iv) *Category 4: MFIs that do not offer insurance products to their clients (not even credit life insurance).* Out of 56, 6 are in this category.

Table 10. Categories of MFIs

Type of institution	Category 1 MFIs with “sophisticated” insurance products	Category 2 MFIs with credit-linked insurance products with added value	Category 3 MFIs with basic credit- linked insurance products	Category 4 MFIs with no insurance products
Bank Financial institution	MiBanco, Azteca Financiera Edyficar, Universal, Proempresa, Confianza, Crediscotia	Amerika	Compartamos, Financiera TFC, Crear, Efectiva, Uno, Mitsui	
CMACs and CRACs	Arequipa, Trujillo, Cusco, Huancayo, Piura, Paita	Lima, Sullana, Maynas, Tacna, Del Santa, Pisco	Maynas, Tacna, Ica	
NGOs	Fondesorco, Prisma, Finca Perú	Promujer Perú	Adra Peru, Adea Andahuaylas, Fovida, Manuela Ramos, Idesi Grau	Ama, Akariwa, Edaprospo, Ider Cesar Vallejo, Mide
EDPYMEs		Raiz	Solidaridad, Alternativa, Credivision, Acceso Crediticio, Inversiones la Cruz, Nueva Vision, Micasita, Credijet	Marcimex
CACs			FENACREP, CAC San Isidro, CAC Abaco	

Insurance companies are required to provide training in respect of the insurance products being distributed, but some MFIs, notably NGOs, said that they had not received materials or training from the insurance companies with which they partner.

Saving and credit cooperatives

CACs distribute approximately 5% of the insurance products distributed through MFIs to socioeconomic segments C and D in Peru. Those that do so use group policies under the umbrella of bancassurance marketers and marketeters. FENACREP is registered as a bancassurance marketer and offers credit-linked products (mortgage credit insurance). Some CACs, independently, though affiliated with FENACREP, are registered as marketeters of an insurance company and offer credit life insurance.

Non-banking agents

NBAs are used as transactional platforms for distributing insurance products to segments C, D, and E. Financial institutions (including banks, CRACs, CMACs, CACs, and EDYPYMEs) have been authorized to use NBAs since 2005. There are approximately 18,644 NBAs in Peru, and they have increased the penetration of financial services in areas where access was previously difficult (figure 26).

Box 1. Non-banking agents in Peru

Source: SBS 2012.

Agentes Kasnet provides a wide range of payment services, deposits, and transfers, among other services. It is owned by the Globokasnet Group from the United States. Approximately 1,000 Kasnet agents are working in Peru, and they are used by a wide range of financial institutions, such as MiBanco, Crediscotia, and some CMACs.

Multifácil belongs to the international group, Hermes. It is used by different financial institutions, including MiBanco, Financiera Universal, and certain CMACs, notably for collecting payments for services and deposits. It also offers services such as recharging cell phones. It began with 105 branches, but now only has 35.

Western Union–Pago de Servicios, an international remittance company, is also used by some financial institutions to collect payment for services.

Other non-banking agents include *Agentes BCP*, *Agentes Scotia*, and *Pagaltoke*, among others.

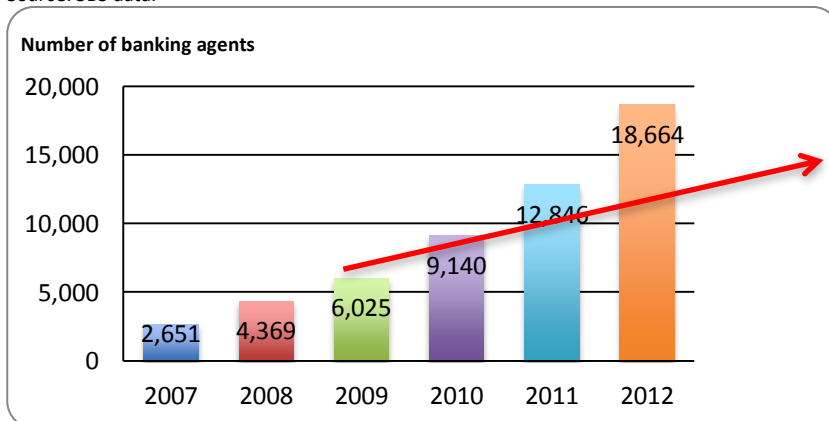
NBAs are generally used as payment networks for financial institutions that enter into bancassurance agreements (box 1). Some MFI NGOs use NBAs to receive payments from their clients through banks where they have their accounts. It is expected that NBAs will continue to expand and that they will be used to sell microinsurance products more in the future, given that the SBS recently allowed NBAs to sell, specifically, microinsurance products.³⁷ NBAs will not be able to sell insurance products that are not registered as microinsurance with the SBS.

Alternative distribution channels

Approximately 8% of the insurance products sold to segments C, D, and E are distributed through alternative distribution channels. Since 2007, insurance companies offering products registered as microinsurance with the SBS have been allowed to use microinsurance marketers. In 2010, insurance companies were allowed to distribute mass insurance products not only by financial institutions (bancassurance), as authorized in 2005, but also by other entities such as marketers. Alternative distribution channels include cash retailers (such as pharmacies and supermarkets), credit-based retailers, utility companies, associations and boards of rural irrigation, providers of natural gas for vehicles, support funds for public servants, municipalities, remittance companies, and providers of home and business security services (annex 4).

Figure 26. Number of banking agents, 2007–12

Source: SBS data.



Retailers that are registered as marketers include supermarkets, department stores, and clothing or grocery stores, such as Wong, Metro, Ripley, and Saga Falabella. At the beginning, “passive sales” (sales without a salesperson) were implemented, but they did not achieve the expected results; therefore, insurance promoters were used in situ. Nowadays, insurance products are distributed in these retailers through sales points of the insurance companies,³⁸ retailers, such as Ripley and Saga Falabella, have created their own brokers or banks. A wide range of insurance products (such as life, health, personal accident, vehicle, and home insurance) offered by insurance companies such as Pacifico and Mapfre are now distributed through Ripley Bank. Saga Falabella created an insurance broker, which is now distributing insurance products to Saga Falabella clients (who are identified by their use of loyalty and credit cards). The Saga Falabella broker is the third largest broker by volume of premiums in Peru.

³⁷ SBS 6285/13 Annex D, Article 4k.

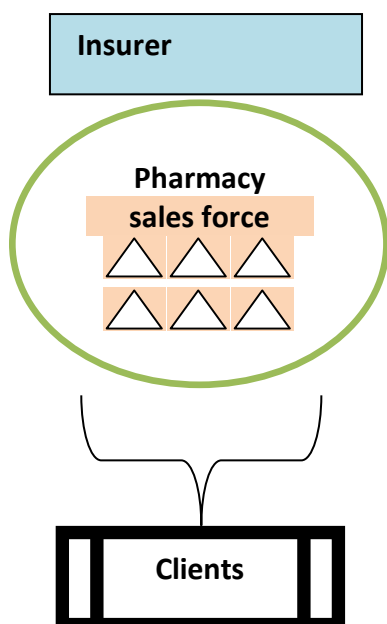
³⁸ For instance, Pacifico offers oncological insurance in its sales points located in metropolitan supermarkets.

For about five years, some insurance companies, such as Pacífico and La Positiva, have distributed life and nonlife insurance products through prepaid insurance cards, similar to prepaid cell phone cards. They were sold on the shelves of some supermarkets and department stores. Pacífico offered four life insurance plans, for which premiums ranged between US\$5 and US\$20 per month. La Positiva offered personal accident and car insurance products. These products were discontinued, as they were not financially sustainable. Indeed, this business model had two main problems: policyholders did not recharge their cards, and technical problems arose with the prepaid card system.

Cash retailers have been exploring the use of pharmacies as policyholders of group insurance policies. Currently, Protecta is offering life insurance through this channel. This channel has significant potential, given that Peruvians rely heavily on pharmacies to treat certain health issues. However, concerns have been raised about the level of training of pharmacy staff selling the products and the lack of incentives for staff to sell them more actively. In addition, even if it is possible to sell a large number of policies, it is very difficult to ensure renewals. The model of distribution is shown in figure 27.

Gas stations are also used as alternative channels. One approach is for insurance promoters to sell directly to the users of petrol and gas stations; another is to sell passively in minimarkets located in the stations. This passive approach was tried by Pacífico through Grifos Primax and La Positiva through Grifos Repsol, which were offering car insurance and SOAT. However, most of these products were discontinued. Second, La Positiva and the natural gas provider, Peruana de Gas Natural (PGN), acting as policyholder of a group insurance policy, adopted a much more successful business model, offering life, accident, and health insurance products to PGN Club members, who are principally taxi drivers. Indeed, the PGN Club provides members (among other benefits) with La Positiva’s insurance products (life, accident, and health insurance) at no additional cost. To be part of the PGN Club and receive this loyalty product, the driver must consume 250 cubic meters of compressed natural gas per month (US\$4 per day).

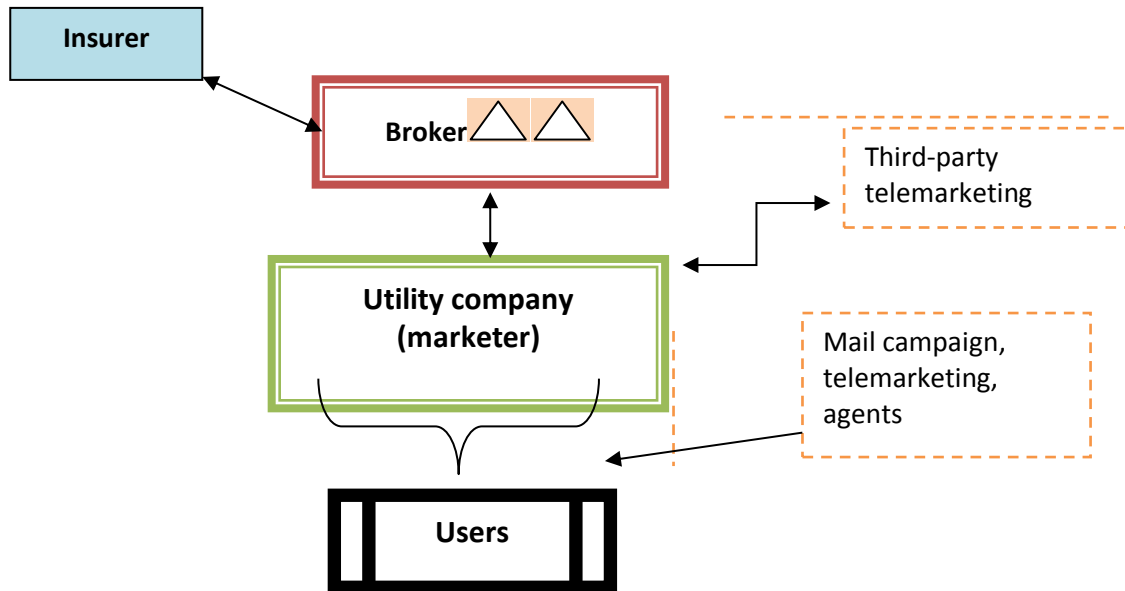
Figure 27. Pharmacies model



Among the providers of residential and business services are utility companies and providers of security services to business. Insurance products are distributed through electricity utility companies (EDELNOR and Luz del Sur) and utility companies, such as Mapfre, Rimac, and Pacífico. However, we found only one utility company, EDELNOR, currently used by Pacífico, in the registers of both microinsurance products and marketers. Pacífico and Pacífico Vida distribute funeral, personal accident, and fire insurance through

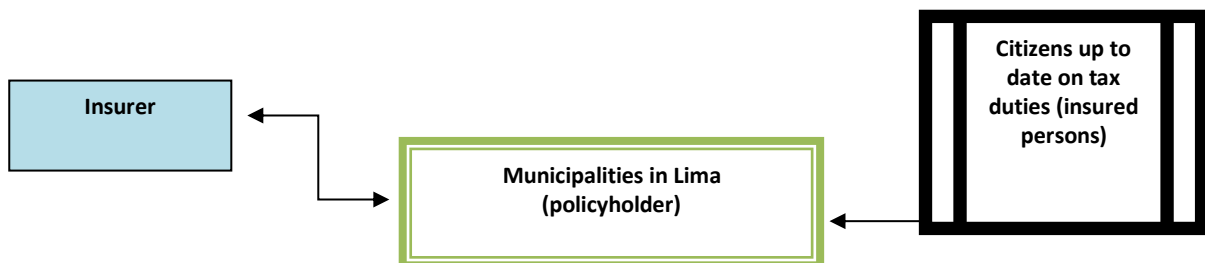
EDELNOR. These products account for approximately 533,722 policyholders (annex 3). Some insurance products, including property insurance, such as fire and multi-risk products, are offered through providers of security services, such as alarms, for homes and businesses. This channel is promising, as microentrepreneurs rely heavily on security services to protect their businesses (figure 28).

Figure 28. Utility companies model



Municipalities have been providing insurance products to segments C and D as policyholders of group insurance policies, in which residents of municipalities are the insured parties and beneficiaries (figure 29).

Figure 29. Municipalities model



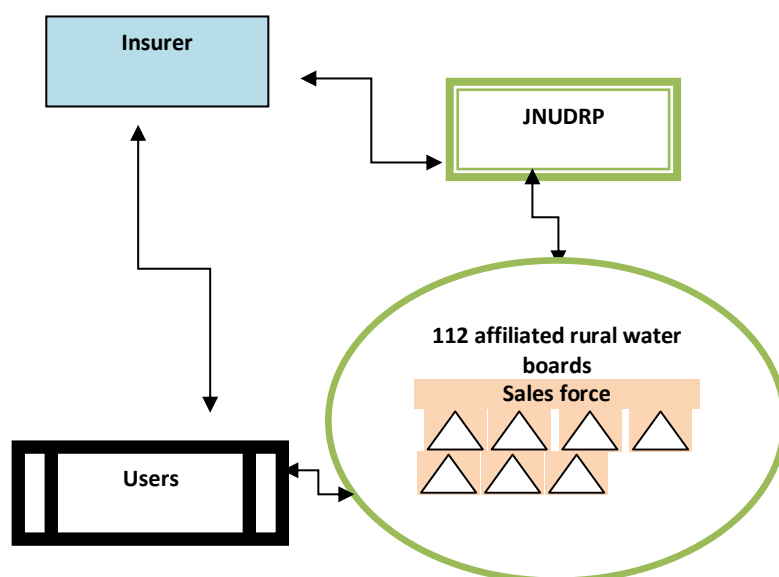
Civil associations, such as the associations and boards of rural irrigation have also been used to distribute life insurance to farmers in rural areas (figure 30). There are 114 rural irrigation associations and 1,584 boards of rural irrigation, which represent approximately 2 million farmers in Peru. La Positiva Vida has used some of these associations and boards to distribute its *Positiva Vida rural* product.

Public institutions are allowed to establish support funds for public servants whose purpose is to provide educational assistance and family support to address emergencies, food aid, and financial assistance through bonuses, credits, and incentives, among others. In the context of financial support, companies offer credit life insurance to these funds for public servants.

Most of the mandatory insurance products relevant to segments C, D, and E are accessible in the workplace. These include mandatory life insurance for workers, workers' compensation for workers in high-risk jobs, insurance products related to the PPS, and health insurance. The employer is generally the policyholder and chooses the risk carrier.

Certain products are distributed through remittance companies. For example, insurance products are being offered by the Kyodai (registered as a marketer) with Pacífico and La Positiva as risk carriers and by Interbank as the financial institution acting as marketer with Interseguro as the risk carrier and providing remittance services. In the case of Kyodai, most of the products have premiums that would be prohibitive for segments C and D, but Pacífico offers oncological insurance that is relatively affordable for segment C. Rimac is offering life insurance to the clients of the EDYPYME Credijet, part of the group Jet Peru, a remittance company.

Figure 30. Associations and boards of rural irrigation model



Insurance brokers

Out of the 945 brokers registered in Peru, only 5 provide insurance products to segments C, D, and E.³⁹ They are Consejeros, Secura (part of the same Protecta group), Cooperadores (Serviperú's broker), Marsh, and AON Perú. These insurance brokers sometimes support MFIs and alternative distribution channels in distributing insurance products to segments C, D, and E. Insurance brokers design products and provide advice to their clients. Some, such as Consejeros, Secura, and Cooperadores, have served segments C, D, and E through cooperatives, MFIs, and associations, among others. Cooperadores is part of Serviperú, which is a service cooperative with 73 member cooperatives (comprising around 500,000 members). Serviperú was a risk carrier until 1993 and is seeking to be licensed as an insurance company. Cooperadores provides intermediation services to member cooperatives for a wide range of insurance products.

The insurance broker and the marketer generally have a direct relationship with the insurance company, which is supported by an intermediation contract with the insurance broker and a commercialization contract with the marketer. The insurance company remunerates both of them separately. In some cases the distribution channel (such as an MFI or an alternative distribution channel) is the client of the insurance broker. In this case, there is no direct relationship with the insurance company, and the broker shares a proportion of its commission with the distribution channel. Brokers' commissions generally oscillate between 10% and 20% of net premiums.

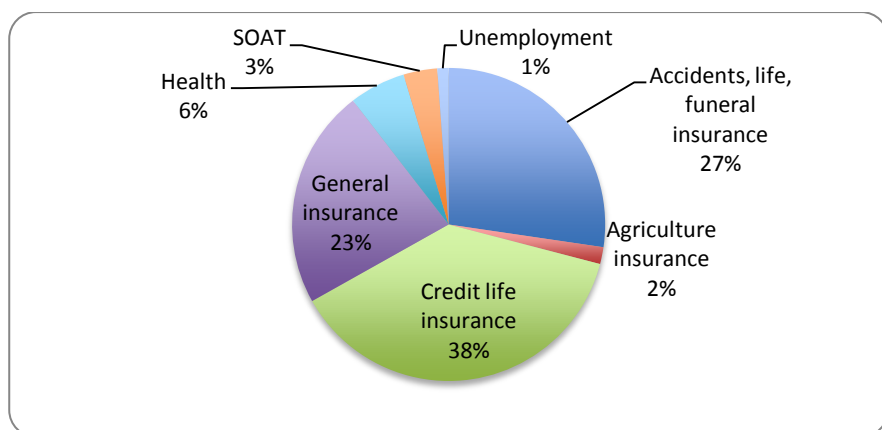
³⁹ Insurance brokers are poorly represented around the country, especially in rural areas. Indeed, out of 24 departments, insurance brokers are only represented in 13; even so, they are more represented than insurance companies.

APECOSE, the Peruvian Association of Insurance Brokers, could play a role in microinsurance. It provides specialized insurance training at the Escuela de Seguros (ESEG, School of Insurance). The ESEG potentially could provide training about insurance, in particular, to distribution channels.

Characteristics of microinsurance products in Peru

Credit life insurance is by far the most offered product to socioeconomic segments C, D, and E, followed by life insurance products, such as personal accident, funeral, term life, and endowment products. Nonlife products come in the third place, followed by health insurance products, then by the SOAT, and lastly by unemployment insurance (figure 31).

Figure 31. Insurance products offered to segments C, D, and E (% of insurance products offered to segments C, D, and E)

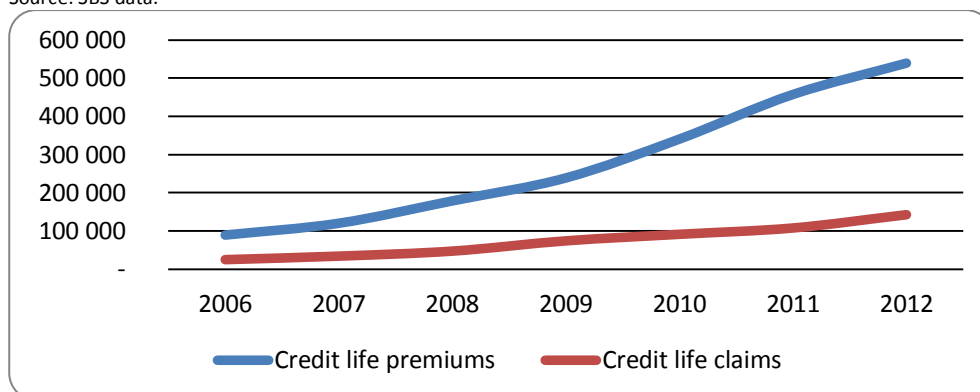


Credit life insurance

Credit life insurance constitutes 38% of products offered to segments C, D, and E. Basic credit life insurance products aim to protect MFIs against nonpayment of the outstanding debt of a client in the event of death. As life insurance has grown, so has the claims ratio (figure 32). Nonetheless, as of September 2013, the claims ratio of these products (26%) was still quite low compared to the average claims ratio of the insurance sector (48%).⁴⁰

Figure 32. Growth of premiums and claims for credit life insurance, 2006–12

Source: SBS data.



⁴⁰ There are no disaggregated data by segments for these insurance products.

The increase has been due to the growth in the demand for credit, which is related to the growth of microcredit. Thanks to credit life insurance, clients have better repayment capacity, and MFIs are more comfortable lending in the first place. Indeed, MFIs and some CACs in Peru have made credit life insurance a “condition” for providing credit, even though such insurance is not mandatory by law (box 2).

Out of 56 MFIs, 47 are distributing basic credit life insurance to their clients. Basic credit life insurance is generally the first time that some MFIs and their clients have come into contact with formal insurance products. Some MFIs instead hold emergency funds to cover the debt in the event of the death of the client or member. The fund is capitalized by add-ons to the loan or interest, and the borrower cannot opt out. Indeed, this is one of the most common types of “informal insurance” products provided by these entities.

Basic credit life insurance is the anchor insurance product for MFIs to develop new and more sophisticated products, as shown on figure 33.

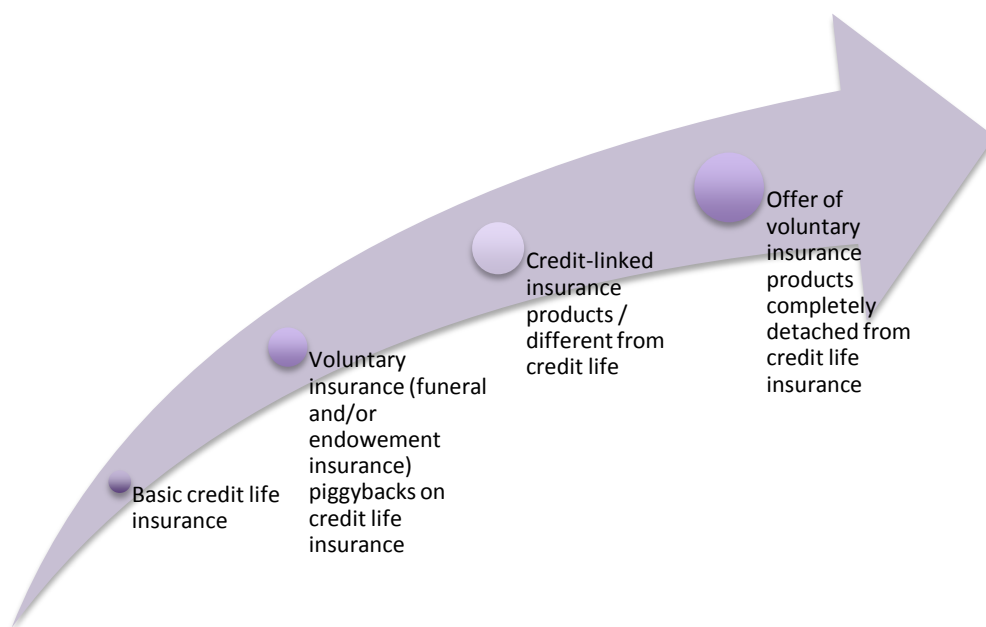
In addition, voluntary life insurance products are generally offered at the same time as basic credit life insurance (credit life plus). These products are largely funeral or endowment products that aim to provide an added value for the client or his or her beneficiaries. MFIs that provide this kind of “credit life plus” include NGOs, such as Prisma, Finca, and Promujer. The claims ratios for these products are 63%, 45%, and 58%, respectively.

Box 2. Is credit life insurance mandatory or not?

Credit life insurance is not mandatory, but it is increasingly customary. The SBS has accepted the common practice of financial institutions by accepting some aspects of credit life insurance, such as the transparency of the policy, when regulating bancassurance.

Congress is studying the Credit Life Insurance Bill, which was presented in 2011. The bill recognizes the social role of credit life insurance and guarantees that such insurance will benefit the financial institution and the consumer. It provides that the consumer can choose the insurer, that age limits are not applicable, and that exclusion clauses have to be approved in advance by the SBS, among other issues. The bill also states, “The creditor can request and make the grant of a loan conditional upon the acquisition of credit life insurance by the borrower. However, the borrower can choose to enter into a credit life insurance contract or can guarantee the loan with a sufficient mortgage guarantee.” The National Institute for the Defense of Consumers and Intellectual Property (INDECOPI) has recommended replacing “can” with “must,” given its view that making insurance mandatory would recognize the social role of credit life insurance.

Figure 33. The path from basic to more sophisticated insurance products for segments C, D, and E



Some MFIs also make loans conditional on the provision of insurance covering assets acquired with the proceeds of the loans, especially business loans. This trend is paving the way for offering nonlife insurance to segments C and D.

Only two credit life insurance products are registered as microinsurance with the SBS, and credit life insurance products are typically excluded.

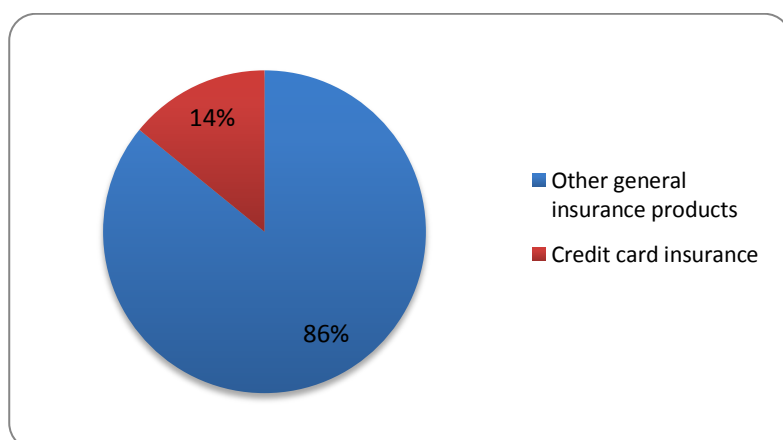
Accident, life, and funeral insurance

Approximately 27% of the insurance products offered to segments C, D, and E are funeral or life insurance products designed to pay a lump sum after a specified term or on death (endowment policy), which offer cover for natural and accidental death. They made up 87% of the microinsurance products registered as microinsurance with the SBS in 2012. In addition, mandatory life insurance for workers, workers' compensation for workers in high-risk jobs, and insurance products linked to the PPS are offered in the workplace. The claims ratios for these products were 55% and 72%, respectively, as of September 2013.⁴¹

Nonlife insurance products

The offer of nonlife insurance products is rising. Of the insurance products offered to segments C, D, and E, 23% are nonlife. This product line includes insurance providing cover against fire, earthquake, theft, assault, and burglary of housing, business, assets, and, to a lesser extent, credit cards (figure 34).

Figure 34. Nonlife insurance products offered to segments C, D, and E (% of insured people)



Many of these products are offered as “multi-risk” insurance and are generally offered to clients of financial institutions. Premiums and benefits are tied to credit. For instance, Seguros Pacífico distributes a multi-risk insurance product through Financiera Edyficar, where premiums and benefits depend on the amount of credit obtained. If the loan is for US\$1,000, the premium will be approximately US\$14 per year, and it will cover the contents of the business, such as machinery, tools, and equipment, in the case of fires, natural disasters, strikes, and damages caused by water and smoke, up to the loan amount (US\$1,000).

Health insurance

Few health insurance products are offered to segments C, D, and E (6%). The two kinds of health insurance products offered are public and private insurance (annex 3). In the case of private health insurance, segments C, D, and E have access through the workplace (EPSs), through distribution channels that offer health insurance products, and directly through health care providers.

⁴¹ There are no disaggregated data by segments for these insurance products.

There are three types of basic health insurance products. Some products provide lump-sum compensation for one or two years in the event of a serious illness or cancer. The average premium is between US\$15 and US\$20 per year, and benefits range between US\$1,000 and US\$2,800. Some products provide a lump-sum compensation in the event of hospitalization. The average premium for these products is also between US\$15 and US\$20 per year, and the benefit is US\$26 per day for 365 days. Third, some products provide more comprehensive health care coverage for inpatient and outpatient care, medical tests, expenses for rehabilitation, and maternity and labor. Examples are the oncological insurance offered by Pacífico and *Servisalud previsión familiar* offered by La Positiva. For the latter, premiums range between US\$83 and US\$260 per year, depending on whether it is an individual or a family plan.⁴² Benefits are as follows: for inpatient care, US\$3,500 (co-payment of 10% in Servisalud health centers, 50% in other health care centers). Co-payments also apply for doctor appointments, medical tests, and emergency care. For rehabilitation, benefits are up to US\$700, and for maternity and labor, they are up to US\$350.

SOAT

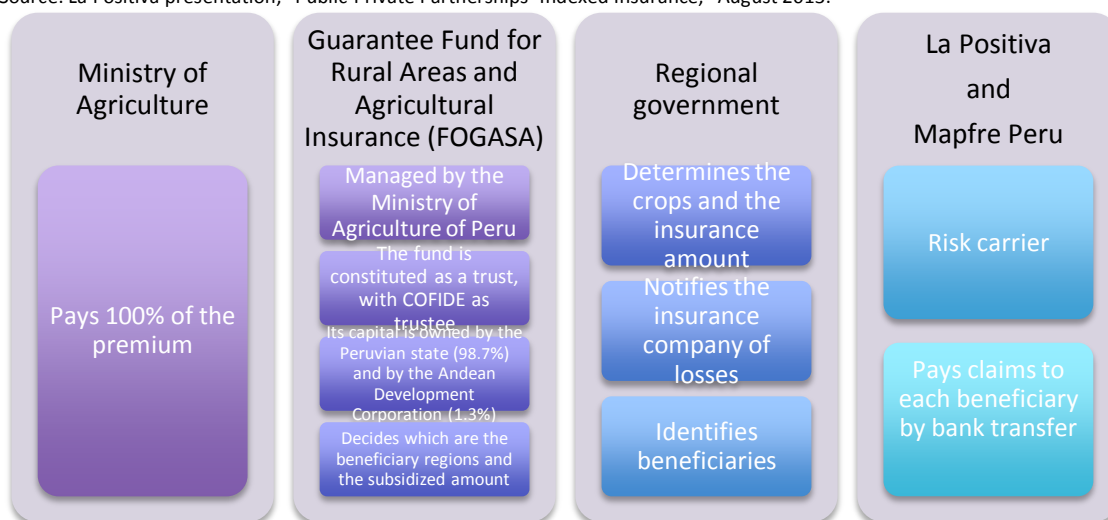
SOAT represents only 3% of the insurance products offered to segments C, D, and E. In these segments, persons who own a vehicle predominantly own a motorcycle or a truck. In 2012 motorcycles represented 7% of accidents, but premiums were six times higher for motorcycles than for cars (approximately US\$100 per year). The average claims ratio for the SOAT was 55% as of September 2013. For vehicles such as rural trucks for private and public transport, the claims ratios were 56% and 89%, respectively.

Agricultural insurance

Agricultural insurance products represent only 2% of the insurance products offered to segments C, D, and E. The government has been developing (and implementing) a catastrophic agricultural insurance (SAC) scheme as a public-private partnership, with La Positiva and Mapfre Peru as the risk carriers (figure 35). The SAC covers eight regions of extreme rural poverty and protects crops such as maize, potatoes, and beans. It provides benefits to 130,500 small-scale farmers and is 100% subsidized by the government.

Figure 35. Public-private partnership for SAC

Source: La Positiva presentation, "Public-Private Partnerships—Indexed Insurance," August 2013.



Bundling this type of insurance in one policy makes it possible to insure a selection of diverse crops, protect large areas comprising small or medium farms, and establish an insured value per hectare for all the crops protected. In the event of a claim, the insurance company would randomly select 11 lots from all of the crop acreage covered by the policy, in order to assess the loss and harvest and make an adjustment. The

⁴² In addition to the benefits offered by La Positiva, an extra benefit of funeral assistance is offered and provided by Funerales Los Olivos. The funeral assistance is for up to US\$2,000.

reduction in the average regional performance (40% as a result of the event) would determine the occurrence of the loss in a particular farming community.

For crop year 2011 to 2012, the Wage Guarantee Fund (FOGASA) insured 415,000 hectares and compensated 37,555 farmers (claims ratio of 29%); 99,300 farmers were compensated, representing a claims ratio of almost 72% (Gustavo Torrejon, MINAGRI). In March 2010, Peru's Ministry of Agriculture and Irrigation (MINAGRI) invested US\$28.7 million in the SAC program. The total insured sum for agricultural catastrophes in crop year 2012 to 2013 exceeded US\$86 million, and the total premium paid in 2013 was greater than US\$14 million.

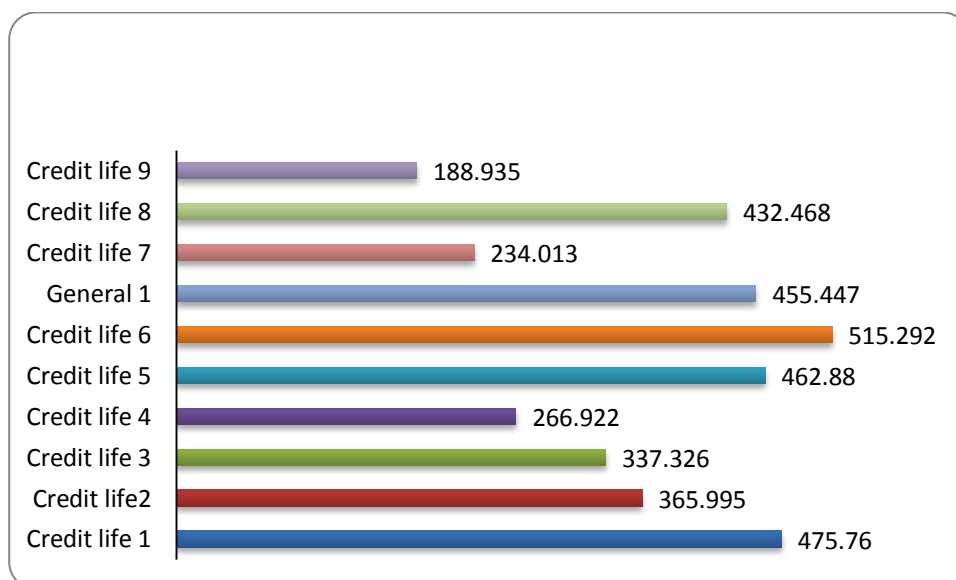
The public sector is also involved with GIZ in the Insurance for Agricultural Microcredit Schemes to Support Adaptation to Climate Change project. This innovative insurance project aims to provide small businesses, MFIs, organizations of producers, and regional governments located in the coastal region of northern Peru with the possibility of insuring themselves against extreme weather events. Currently, the project has been implemented with La Positiva, which offers indexed weather insurance to microfinance institutions and regional governments located in selected regions repeatedly affected by the El Niño and La Niña phenomena: the coastal area of Piura, Lambayeque, and La Libertad.

In addition to these two products, commercial agricultural insurance (SAC) is offered to financial institutions, covering 100% of the credit when their clients suffer a loss of productivity (up to 70% of expected performance) caused by catastrophic events as a consequence of climate change or fire. The premium, which is different for different crops in the area.

Unemployment insurance

Unemployment insurance constitutes only 1% of products offered to segments C, D, and E. We only identified two products in a universe of approximately 172 insurance products offered to segments C, D, and E. No unemployment insurance products were registered as microinsurance with the SBS.

Figure 36. Top 10 products, by number of subscribers



Take-up

There are approximately 6.1 million insured people who potentially belong to segments C, D, and E and are covered by 172 products, which are offered by 12 insurers. There is a margin of error for this figure, as we cannot be sure that these products are effectively reaching these segments. In addition, we did not include

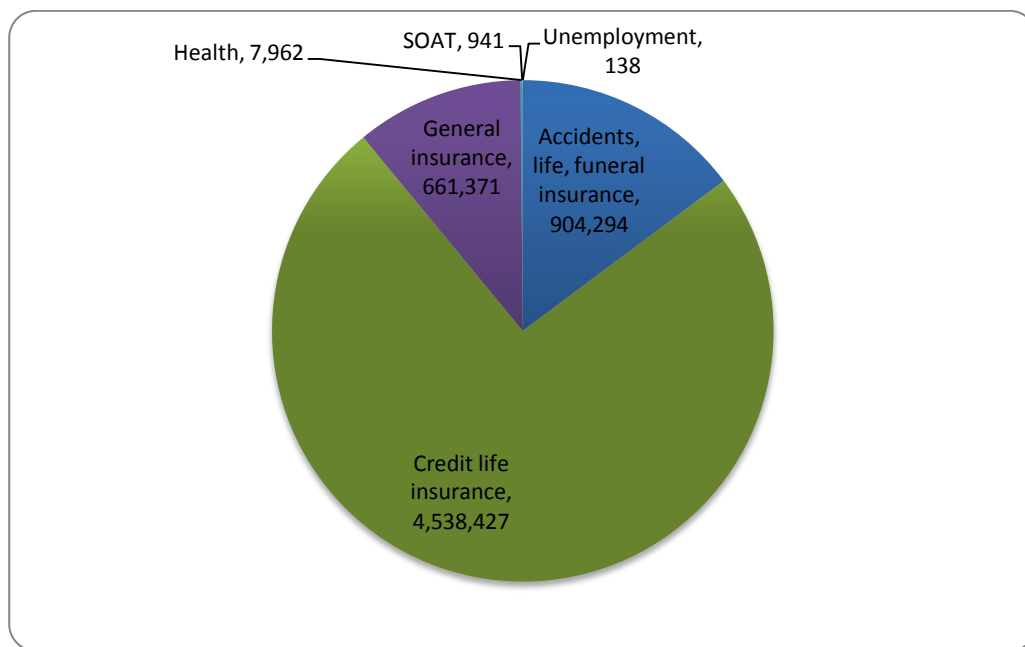
insurance-like products, agricultural insurance, and mandatory insurance products accessible to segments C, D, and E because of the lack of consolidated and disaggregated data on them.

Excluding the SAC sponsored by the Peruvian government, we ranked the top 10 products by the number of people insured (figure 36). These products reach 3,735,038 persons; 9 out of 10 products are credit life products and are distributed mainly by MFIs (annex 4).

The product that insures the most people is credit life, followed by accidents, life and funeral insurance, and general insurance, as shown in figure 37.

Figure 37. Insurance products to segments C, D, and E, by number of subscribers

Source: Based on inputs from SBS and own calculations.



5. Policy, Supervision, and Regulation

In this section, we identify how insurance is integrated in public policies in Peru, how microinsurance is supervised, and which regulatory frameworks are applicable to microinsurance, dividing the regulation applicable to the insurance activity from that applicable to the contract.

Policy

The Peruvian government understands that insurance is an essential part of its public policy of risk management. Since 2010, it has made the inclusion of risk reduction measures a condition for funding major public projects, and in 2012 the Ministry of Economy and Finance (MEF) created a risk management department. This department is in charge of designing, adopting, and implementing policy measures in order to manage financial, operational, and fiscal risks that are of a legal or contractual nature or that arise from natural disasters (GFDRR 2010). Currently, this department is analyzing the impact of certain risks on the economy in order to design appropriate public policies for managing them. In particular, it is examining risks arising from natural disasters, such as earthquakes, tsunamis, and weather catastrophes (United Nations 2013).⁴³ The MEF, the MIDIS, and the MINAGRI are all developing and implementing microinsurance programs that aim to manage weather catastrophes.

The Peruvian government also recognizes the importance of microinsurance for the most vulnerable segment of the population. The national financial inclusion strategy, described in annex 5, is part of a broader strategy to promote social inclusion (Reyes, Cañote, and Mazer 2011),⁴⁴ and the SBS has adopted specific regulations on microinsurance.

The SBS has been promoting financial inclusion—through financial education, consumer protection, regulation and supervision, and transparency of information—and its efforts have been recognized worldwide (GPII 2011). In doing so, it has been acting in line with international standards, such as the G-20 Principles for Innovative Financial Inclusion, and is a member of the Alliance for Financial Inclusion (AFI).⁴⁵ In addition, the SBS signed the Maya Declaration on September 30, 2011, committing to (i) adopt electronic money regulation, (ii) increase the use of non-banking agents, (iii) reinforce basic accounts, (iv) improve the transparency of regulations and use of financial services, and (v) review the contracts used in the financial system in order to guarantee a more level playing field and ensure that they are in “plain Spanish,” “abandoning, as far as possible, the legalese that now characterizes them” (SBS 2011).

As a pending member of the Inter-institutional Committee of Financial Inclusion, the SBS stated that its five roles are to (i) promote financial inclusion through regulation and supervision, (ii) guarantee transparency, (iii) provide advice, (iv) foster financial culture, and (v) ensure a constant dialogue with supervised entities. Since 2007, the SBS has been a leader in “financial education,” acknowledging that it needs “to empower consumers so they can effectively use their rights, but at the same time it is essential to promote providers in order to ensure a competitive market” (Universidad del Pacífico and SBS 2012). Insurance companies such as Rimac, and consortiums of NGOs, such as COPEME, have been complementing the efforts of the SBS.

⁴³ See Morrison (2013). Peru was recently praised by the United Nations as a leader in disaster risk reduction during the launch of the *Global Assessment Report on Disaster Risk Reduction* (United Nations 2013) in New York on May 15, 2013.

⁴⁴ According to the financial inclusion guidelines adopted by the MIDIS, social inclusion means that all citizens can exercise their rights, have access to quality public services, participate in the national community on an equal footing, and enjoy the essential capabilities necessary to take advantage of the opportunities that accompany economic growth.

⁴⁵ The MIDIS recently became an AFI member.

Supervision

We begin by identifying the relevant supervisory authorities. Even though the SBS is the most relevant authority in microinsurance, other authorities could also be involved. We then analyze how the SBS supervises microinsurance.

The SBS was created in 1931 and made autonomous by the 1979 Constitution. Pursuant to the General Law of Financial and Insurance Services (GLFIS), the SBS is charged with protecting the interests of the public through the supervision and regulation of insurance activity.

The SBS supervises insurers,⁴⁶ intermediaries (brokers), and certain entities that act as distribution channels of microinsurance. This is the case for certain MFIs,⁴⁷ such as commercial banks, financial companies, savings and credit cooperatives authorized to offer products to nonmembers, CMACs, CRACs, and EDPYMEs. However, other distribution channels, such as retailers, pharmacies, public utility providers, savings and credit cooperatives that offer products to their members, mobile network operators, and UNICAs, are not supervised by the SBS, but they may (or may not) be supervised by other authorities.

Consequently, other sector supervisors and agencies provide a certain level of oversight and are relevant to microinsurance. FENACREP supervises savings and credit cooperatives, which only offer products to members, and is ultimately also supervised by the SBS.⁴⁸ The majority of NGOs (which act as MFIs) are members of COPEME, which promotes self-regulation and whose members are responsible for adopting sound microfinance practices. The same applies to COFIDE, which represents the UNICAs. In addition, there are the supervisors of mobile network operators (OSIPTTEL), water and sewerage companies (SUNASS), electricity and gas companies (OSINERGIMIN), and health care institutions (SUNASA).

The SBS's supervision of microinsurance is primarily preventive in nature. Supervisory attention is paid largely at the initial stage of developing and obtaining approval to distribute a product. This applies to all insurance products registered with the SBS as microinsurance and to conventional insurance products. The SBS maintains a register of insurance policies and certificates (normal policies and simplified policies). Insurance companies provide the SBS with quarterly information about their activities, number of insured people, volume of premiums, and volume of losses.

For mass insurance products, insurance companies need a one-time prior authorization from the SBS to use mass marketers. For products registered as microinsurance with the SBS, there is no need to register the microinsurance marketer, only the microinsurance product. Neither mass insurance nor microinsurance is subject to exceptional sanction regimes. The same sanctions applicable to conventional insurance are (also) applicable to microinsurance and mass insurance. The greatest risks that microinsurance products pose to these statutory objectives are related to promoting a competitive and reliable insurance market.

The manner in which the SBS supervises microinsurance is determined by how microinsurance affects its ability to achieve its statutory objectives. These objectives are given in table 11.

The following are some of the supervisory responsibilities that arise out of microinsurance activity: ensuring the financial soundness of insurers, enforcing regulatory requirements, promoting a competitive and reliable insurance market, and contributing to the development of the country.

⁴⁶ Supervised entities are obliged to report a variety of information to the SBS. Microinsurance Resolution 2009, no. 11, indicated that insurance companies offering microinsurance products must send certain statistical information regarding their microinsurance policies to the SBS every three months.

⁴⁷ MFIs distribute insurance products under the umbrella of bancassurance. Insurers also benefit from a fairly extensive network of retail points outside traditional branches (non-bank agents).

⁴⁸ A bill in the Peruvian Congress aims to change this. It proposes that savings and credit cooperatives offering products to nonmembers will be also supervised and regulated by the SBS.

Table 11. SBS statutory objectives

Source: Ian Webb's elaboration.

Statutory objective	Impact of microinsurance
Guaranteeing the economic and financial soundness of the individuals and corporations under its control	Low
Enforcing the legal, regulatory, and statutory regulations	High
Promoting a competitive, solid, and reliable insurance market	Medium
Promoting an insurance market that contributes to the development of the country	Medium-high

The level and type of supervisory resources directed at microinsurance in practice are as follows:

1. *Ensuring the financial soundness of insurers (prudential risks). Allocation of resources: low.* Microinsurance portfolios represent a low level of prudential risk in the market. The SBS does not allocate much supervisory attention to the prudential risks associated with microinsurance. As such, it focuses primarily on assessing whether the technical reserves for microinsurance products are being calculated as initially proposed by the insurer.
2. *Enforcing regulatory requirements. Allocation of resources: high.* Breaches of regulations by insurers and intermediaries involved in microinsurance activity carry large reputation risks for the SBS. Accordingly, the level of supervisory resources attached to enforcing regulatory requirements is relatively high. The SBS reviews the technical notes behind products that insurers submit for approval as microinsurance, assessing the proposed contract language, underwriting, and intermediation strategy and the target population. It carries out an intensive supervision of products before they are launched. It also monitors the data systems of insurers to ensure that they are registering the number of policies underwritten correctly and in a timely manner and are making the necessary entries so that reserves are updated accordingly. It also monitors the insurers' compliance with requirements regarding payment of claims, but this monitoring is general for all insurance products, and so far no specific monitoring of compliance with the specific requirements on claims payment has been established in Microinsurance Resolution 2009. The same situation applies to the applicable deadlines for handling complaints.
3. *Promoting a competitive and reliable insurance market. Allocation of resources: medium.* The SBS publishes information to assist the general public in understanding essential aspects of different types of insurance products, including their rights as insurance consumers. This disclosure increases transparency and facilitates comparison between products. To our knowledge, the SBS does not yet enable comparison of microinsurance products on the Internet. Although individual microinsurance clients are not likely to be Internet-savvy, the institutions that review microinsurance products for their members would benefit from such transparency. The SBS does not publish information and statistics for the general public on complaints filed with the SBS.
4. *Promoting an insurance market that contributes to the development of the country. Allocation of resources: medium-high.* The SBS adopted the Microinsurance Resolution in 2007 and revised it in 2009, highlighting the importance of providing access to insurance for the less privileged.

Anti-money laundering regulation is appropriate for microinsurance products. Insurance companies must comply with certain "know your client" requirements in the context of the anti-money laundering and combatting the financing of terrorism regime. Nevertheless, in the case of microinsurance, mass insurance, mandatory insurance, and group insurance (among others), there is no need to verify the clients' personal information, which includes the policyholder, the insured party, and the beneficiary.

Regulation

We first identify which regulatory frameworks are applicable to microinsurance, separating the regulation applicable to the insurance activity and the contract from other applicable regulation. We then describe the regulatory landscape of microinsurance, including licensing, product rules, distribution, market conduct rules, complaints handling, and dispute resolution.

Regulation applicable to microinsurance

In addition to regulation of microinsurance by the SBS, myriad regulations related to financial services, consumer protection, competition, data protection, taxes, and financial inclusion, among others, are also applicable. To clarify which regulatory instruments are, in fact, applicable to the microinsurance market, we refer first to insurance regulation and then to other regulation applicable to microinsurance.

“Insurance regulation” refers here to the norms that regulate the insurance “activity” and the insurance “contract” in order to foster a safe, fair, and stable insurance sector and, at the same time, protect the consumer (IAIS 2012a, 2012b). In the first case, we refer to prudential and market conduct rules applicable to providers (insurers and intermediaries). In the second case, we refer to regulation of the contract entered into between the insurer and the policyholder.⁴⁹ Even though we try to maintain this division, in some cases, certain regulations related to the insurance activity also have an impact on the contract (such as market conduct rules).

In Peru, the Congress and the SBS regulate insurance activity and insurance contracts, mainly under the GLFIS and the recently enacted Insurance Contract Law, which entered into force in May 2013.⁵⁰ In response, the SBS has enacted several regulations. The most relevant for our diagnostic are mentioned in table 12. Table 13 provides an overview of the regulation applicable to microinsurance other than insurance regulation.

Table 12. Relevant regulation for the study

Topic	Resolution
Insurance policies and technical notes	SBS 1420/05
Commercialization of insurance products through financial institutions and insurance promoters	SBS 510/05
Register of insurance policies and technical notes	SBS 1136/06; SBS 7044/13
Commercialization of insurance products	SBS 2996/10
Register of intermediaries and insurance assistants, such as insurance adjusters	SBS 1797/11
Premium payment	SBS 3198/13
Transparency of information and insurance contracts	SBS 3199/13
Health insurance	SBS 3203/13
Claims management and payment	SBS 3202/13
Use of electronic policies	SBS 3201/13
Microinsurance Resolution 2007 (abrogated)	SBS 215/07
Microinsurance Resolution 2009	SBS 14283/09

⁴⁹ These rules are also applicable to the relationship between the insurer and the insured party and beneficiary when they are not the policyholder.

⁵⁰ This is an important development, not only because of the important provisions that have an impact on microinsurance, but also because, before the Insurance Contract Law entered into force, Articles 345 to 429 of the Commercial Code of 1902 were applicable to the insurance contract.

Topic	Regulation
Constitution	National Constitution 1993
Financial services and financial inclusion	<ul style="list-style-type: none"> • <i>“The Guidelines for the Design of Policies and Implementation of Interventions on Financial Inclusion, Targeted to the Population in Process of Social Inclusion”</i> (Resolution 030/13) • Regulation of banks and financial institutions (GLFIS) • CMAC and CRAC (Decree 17/90 EF) • Banking correspondents (Circular B-2147/05, F-0487/05, S-0612/05, CM-0334/05, CR-0203/05, EAF-0230/05, EDPYME 0118/05, SBS 775/08, and SBS 6285/13) • Basic accounts (SBS 2108/11) • Transparency regulations and information to enter into contracts for the users of the financial system (Resolution 8181/2012) • Electronic money (Electronic Money Law 29985/13). This law was regulated by the Ministry of Economy (Decree 090-2013), the OSIPTEL (Resolution OSIPTEL 043/2013), and the SBS regulation of the Mobile Banking Law: (i) the regulation of electronic money transactions (SBS 6283/13); (ii) the regulation of companies issuing electronic money (SBS 6284/13); and (iii) the regulation of the electronic money transactions that “correspondents” can facilitate • Circular G-165/12 for supervised entities about a new reporting obligation, which consists of “risk reporting” for new products or important changes in terms of business, operations, or information technology.
Cooperatives	<ul style="list-style-type: none"> • Cooperatives Law (Legislative Decree 85/81, updated in 2005, unique text approved by Decree 074-90-TR) • Law of the Cooperative Act (cooperatives exempt of the TVA Law 29683/2011) • Law 29972/12, which promotes the inclusion of agricultural producers by cooperatives • Regulation of the savings and credit cooperatives not authorized to collect money from the public (Resolution SBS 540/99) • The bill aiming to reform the Cooperatives Law: 2282/2012-612, being deliberated since May 30, 2013, in the Peruvian Congress
Contract Law	When there is no provision in the Insurance Contract Law, Contract law, which is included in the Civil and Commercial Codes, will be applicable
Electronic trade	<ul style="list-style-type: none"> • Law on Digital Signatures and Certificates; Law 2769/2000, modified by Law 27310; regulation of the Law on Digital Signatures (Decree 052/2011 PCM) • Law 27310/00 Regulation Decree 07/11 PCM; Decree 105/12 PCM modifies the regulation on Digital Signature; Law 27291 modifies the Civil Code in order to make the provision of consent by electronic mechanisms possible
Penal Code	Title V, Chapter X (electronic crimes); Title IX, Chapter I (abuse of dominant position); Title X, Chapter I (financial crimes)
Financial consumer protection and general consumer protection	<ul style="list-style-type: none"> • Article 65 of the National Constitution 1993 • Consumer Protection Code (Law 29.571/2010) • Consolidated text of the Consumer Protection Law (Decree 006/09 PCM) • Complementary law about financial services to the Law of Consumer Protection (Law 28.587/2005) • Law of the National Institute for Defense of Competition and Protection of Intellectual Property (INDECOPI law) (Law 25.868/92) • Circular SBS no. 146-2009, which modifies certain provisions of the consumer protection code • The regulation that aims to protect the consumer of OSIPTEL-supervised companies, such as the regulation of OSIPTEL claims procedures (Resolution OSIPTEL 015/99) and the regulation of conditions of use (Resolution OSIPTEL 116/03)
Money laundering	<ul style="list-style-type: none"> • Law 27693/02. Complementary regulation on money laundering (SBS 838/08) • Regulation on basic accounts and money laundering (SBS 2108/11)
Competition	Law on Repression of Unfair Competition (Decree 1044/08)
Regulation on data protection	Law on Personal Data Protection (Law 29.733/11) and its regulation through Decree 003/13 JUS
Access to public information	Law of Transparency and Access to Public Information (Law 27.806) and its regulation through Decree 072/03-PCM, which was recently modified by Decree 070/13-PCM
Tax regulation	Law on Value-Added Tax (Decree 055/99); law that exempts taxation of life insurance policies (Law 29.772/11); law on income tax (Decree 179/2004-EF)
Social security and health insurance	New Insurance Contract Law (SBS 3203/13), which regulates provisions of health insurance; Law 29.878/12, which establishes the requirements of insurance policies for health insurance; Law 30.024/13, which establishes the national register of clinic records; FLUHI (Law 26,790); Decree 009-97 SA, regulation of the Law on Modernization of Social Security; Decree 003-98 SA on regulation of the complementary insurance for risky jobs
Electronic government	National Policy on Electronic Government, 2013–17 aiming to bring the state closer to citizens and to ensure that technology provides access to information and enables citizen participation; Decree 081-2013-PCM

Table 13. Other applicable regulation to microinsurance

Licensing and prudential requirements of risk carriers

Only corporations (limited companies) are allowed to act as risk carriers and, therefore, only licensed insurance companies can underwrite risks. Such licenses must be displayed at all branches, agencies, or special offices. Providing insurance services without the necessary authorization is a criminal offense, and such entities will be penalized under the Penal Code.

Prudential requirements are not excessive. To operate, insurance companies and subsidiaries must comply with minimum capital requirements. This is currently US\$970,000 for companies covering a single line of risks: life or general, and US\$1.3 million for companies covering both lines. Companies also must comply with solvency requirements: available capital must not be lower than the regulatory required capital (the solvency margin plus the required guarantee fund), limits on indebtedness must be observed, and assets backing technical reserves must meet asset admissibility, diversification, and quality requirements. In addition, organizers, managers, and directors of insurance companies must comply with fitness and propriety requirements, including both moral character and financial and technical requirements.

Box 3. The experience of Serviperú

Source: Bohorquez 2009; Rodríguez and Miranda 2004; interview with W. Bohorquez, director of Serviperú.

Serviperú—at that time called SEGUROSCOOP—acted as risk carrier from 1966 to 1993. Its insurance portfolio, comprising life and property insurance, was transferred to La Positiva, and a profit-sharing arrangement was agreed. Today, Serviperú is a central cooperative that provides health care services, funeral services, and brokerage services. Serviperú *Asesores y Corredores de Seguros*, a subsidiary of Serviperú, is licensed as a broker. It plans to become licensed as an insurance company, with Serviperú, FENACREP, and seven other cooperatives as its stakeholders.

Serviperú designs insurance products that are appropriate for its members. It serves small and rural cooperatives and has improved their bargaining power. As of today, 264,000 cooperative members have access to insurance through Serviperú (broker), and its clients include more than 200 cooperatives, small enterprises, associations, and other institutions.

The most representative product distributed is health microinsurance covering family groups or individuals, which provides health and funeral coverage for up to 25,000 associates.

Before 1993, cooperatives, such as Serviperú, were allowed to offer insurance products (box 3). The role of the cooperative sector has been limited since the 1990s, when economic and political structural modifications discredited the cooperative sector. Nevertheless, this situation has been changing. In 2011, the Law of the Cooperative Act was passed, exempting cooperatives from value-added tax (VAT), and in 2012, a law was passed promoting the inclusion of agricultural producers in cooperatives. The Congress is considering a bill reforming the Cooperative Law,⁵¹ to allow insurers to be licensed not only as public limited companies but also as “central cooperatives.”⁵² According to the bill, insurance cooperatives could provide insurance and microinsurance services to their members. They would be regulated and supervised by the SBS, and their minimum capital requirements would be set by the SBS in proportion to the requirements for enterprises that provide financial services to small and microenterprises.

Funeral service agencies offer prepaid funeral plans that resemble a funeral insurance policy, but neither the insurance companies nor the SBS has discussed this area of insurance.

Product rules

In Peru there is a clear demarcation between life and nonlife products, and insurance companies are licensed as either nonlife or life entities.

The registration of policies and technical notes can take around four months, and there is no particular regime for registering microinsurance products differently. Recent changes in the approval process aim to speed up the registration process.

⁵¹ In 2008 two bills were proposed to reform the cooperative law: Proyecto de Ley no. 2652/2008-CR and Proyecto de Ley no. 2824 /2008-CR. The bills, which were proposed by different political parties, were filed in October 2011 and July 2010, respectively.

⁵² This is the current situation in Colombia (Camargo and Montoya 2011).

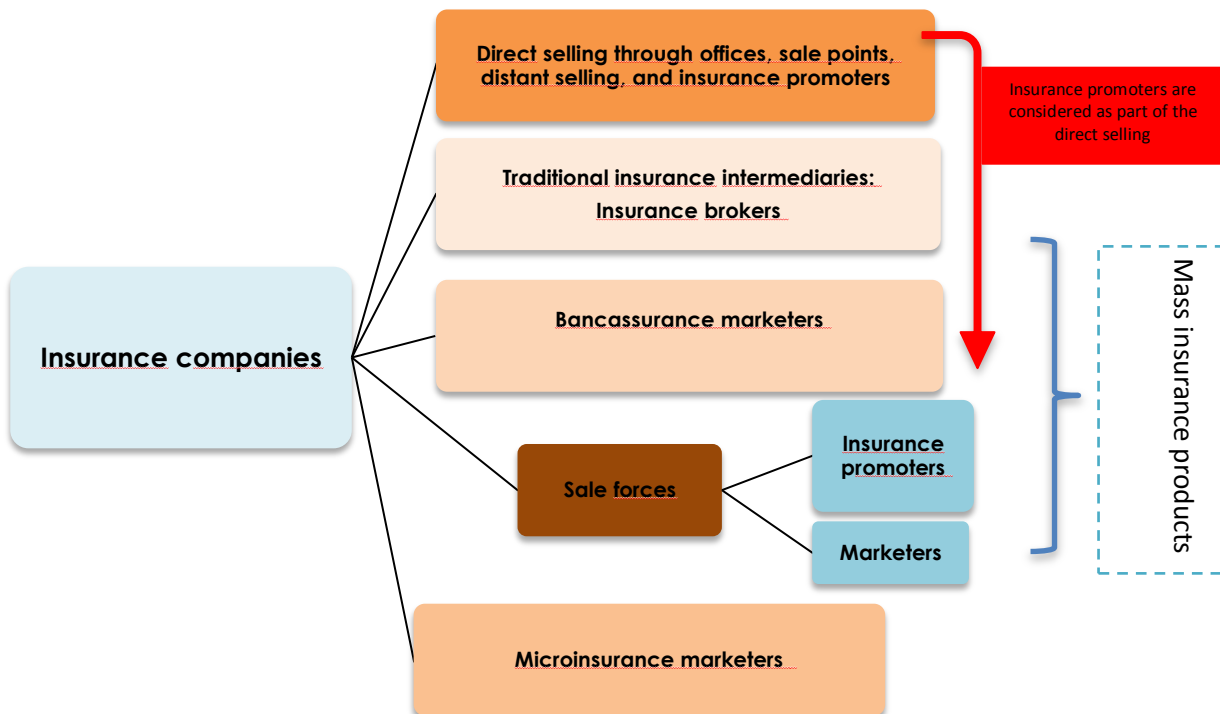
Microinsurance Regulation 2009 adopted simplicity, clarity, and speed as the three core principles applicable to the provision of microinsurance. Microinsurance products are different from others in that they must be designed according to the risk profile and the real and immediate needs of the potential insurance group. Therefore, covers must be appropriate to the characteristics of the target market. Microinsurance products are allowed to use microinsurance marketers; simplified policies and individual certificates; simplified products without exclusions or (if applicable) with minimum exclusions and without deductibles, co-payments, or franchises; a simplified contracting process without previous verification requirements; and procedures for processing payouts and handling complaints quickly.

Insurance companies interviewed for this diagnostic said that the inability to include co-payments and exclusions in health insurance products reduces the scope for designing appropriate and more complex health insurance products. In addition, the expression “minimal exclusions” is ambiguous and not properly defined, which gives the SBS discretion to construe what constitutes a “minimal exclusion” (and what does not) in each case and even to construe other clauses in the contract in a restrictive manner. This situation creates legal uncertainty. Insurance companies face a dilemma, as, in some cases, reinsurers require them to include exclusions, which means that they cannot underwrite their risks with the reinsurers and comply with requirements under Microinsurance Resolution 2009.

Distribution

Insurance companies can distribute their products either directly or indirectly through traditional insurance intermediaries (brokers). In addition, they can commercialize their microinsurance products through microinsurance marketers and their mass insurance products through mass marketers (figure 38). In the case of mass insurance products, insurance companies can use either financial institutions or sales forces (insurance promoters and marketers; box 4). Specifically, mass products are defined as standardized products that (i) are constructed in simple language; (ii) are easy to understand and manage by policyholders, insured parties, and beneficiaries; and (iii) do not require special conditions in respect of the insured party or property; the simple acceptance by the insured party is sufficient.

Figure 38. Distribution of insurance products



Insurance companies can commercialize their products *directly* by using their employees in their offices or by using sales points, distance selling, and “insurance promoters,” who can be a staff person or an agent. Offices are principal offices, agencies, branches, special offices, and shared premises.⁵³ Special offices are offices where some of the insurance activities may be performed, and they may be mobile or fixed, permanent or temporary. This could mean that insurance companies use, for instance, mobile vans to serve clients in rural areas after a catastrophe. However, a special provision prevents insurance companies from using mobile offices. Insurance companies can also commercialize their products through “sales points” authorized by the SBS. However, such authorization is not needed when the sales points only provide information and promote services, but do not sell insurance products. “Distance selling” by insurers can be done via telephone, Internet, or similar mechanisms, after being authorized by the SBS to do so. The information disclosed to potential customers through such mechanisms⁵⁴ has to be true, comprehensive, complete, and transparent, and the information provided by the potential consumer must be treated as confidential.

Box 4. Methods available to insurance brokers to intermediate insurance contracts

Source: SBS 1797/11.

1. *Agency contract.* Insurance brokers intermediate contracts for an insurance company after entering into an agency contract in return for the payment of a commission. The contract may be exclusive. Insurance brokers that have entered into an agency contract must inform the SBS.
2. *Sales promoters.* Insurance brokers can use the services of sales promoters or sales forces, who are natural persons with an employment contract or a provision of services contract that allows them to offer insurance products. The insurance broker companies are responsible for all their acts and omissions. The sales promoters or sales force have to be especially trained in order to advise potential clients appropriately about the characteristics and conditions of the products. These companies must maintain a register of promoters or sales forces and make it available to the SBS. The register must include general information, the training offered, the type of insurance offered, and the volume of sales.
3. *Points of sale.* Insurance brokers can have temporary sales points in commercial establishments of other enterprises, but they have to inform the SBS in advance.
4. *SOAT commercialization.* Insurance brokers can offer SOAT in places other than their principal office if they have a commercialization contract with the company offering the product. Brokers are responsible for any wrongdoing.
5. *Intermediation by distance communication systems.* Insurance brokers can intermediate mass insurance using systems of distance communications (telephone, Internet, or other media that allow them to reach potential consumers virtually), but they must obtain the acceptance of the policyholder or insured party. This type of intermediation has to ensure that the information provided by the insurance broker is true, comprehensible, full, and transparent. Information must be kept in a reserved and confidential manner, allowing future verification and identification of the consumer. This information has to be available to the consumer and the SBS. Brokers are responsible for the security of such information.

“Insurance promoters” were allowed in 2005. They are natural persons with either an employment contract or a service contract to promote, offer, and commercialize mass insurance products—that is, they are either staff persons or agents. If they have an employment contract, they are “employees,” of the insurance company, but they can only commercialize mass insurance products. They can only act on behalf of one insurance company at a time, and insurance companies are completely responsible for any wrongdoing or damage they cause. They have to receive proper training, as indicated in box 5.

Insurance companies also can sell their products through *insurance brokers*, who may be natural or legal persons.⁵⁵ They can intermediate insurance contracts and provide advice to the policyholder or the insured party. They have to comply with certain financial, expertise, and moral requirements in order to be licensed and registered with the SBS. Their role is to reduce the asymmetry of information between potential or actual policyholders or beneficiaries and insurance companies. To be registered, insurance brokers are subject to specific obligations, requirements, and prohibitions. For instance, they must inform the insurance company of the state of the risk and advise potential policyholders or insured parties about the

⁵³ The SBS recently published a draft resolution that will modify SBS 775/08.

⁵⁴ The following is the minimum information that has to be disclosed to consumers: identification of the company, the person who is presenting the offer, and the potential policyholder; characteristics of the product (covers, exclusions, waiting periods, deductibles, and cover period); total cost to the policyholder, including premiums, taxes, and other charges; claims-handling procedures; and how to accept the offer and cooling-off periods (these periods cannot be less than 15 days from the moment that the policy or certificate was given to the contracting party).

⁵⁵ Legal persons are subject to minimum capital requirements.

most appropriate products in respect of their risks. They cannot collect premiums in the name of the insurance company. They must inform the public through marketing brochures and prospectuses that they act as insurance brokers and always state their address, telephone number, e-mail, and SBS registration number.

Box 5. Responsibilities and obligations of insurance companies when using financial institutions, insurance promoters, and marketers

Source: SBS 2660/10.

Responsibilities

- Insurance companies are directly liable for any wrongdoing committed by the commercialization channels working on their behalf.
- They are responsible for the failure of commercialization channels to explain to potential and actual consumers the covers and the characteristics of the products.
- They have to provide informative brochures for each product to their commercialization channels. These brochures have to contain the basic information provided in the rules of insurance policies and technical notes.
- They have to ensure that “sales forces” are suitable, competent, and solvent. They are responsible for having a code of conduct and a register of insurance promoters and for providing information to the SBS.
- They have to provide training to commercialization channels, in order to guarantee that they disclose appropriately the characteristics and conditions of the products offered.

Type of training to be provided

- For insurance promoters, insurance companies have to provide at least an annual program, in order to update their knowledge about commercialized products and transparency disclosure requirements in the context of consumer protection. Trainee insurance promoters are not allowed to act on behalf of the insurance company; they are certified after completing the training.
- For marketers and financial institutions used in the context of bancassurance, insurance companies have to provide appropriate training and procedure manuals to the employees or to any other person in charge of promoting, offering, and commercializing products. The training must include information not only about marketed products but also about the procedure for entering into a contract, the payment of premiums, the handling of claims, and the payment of any compensation.

Since 2005, insurance companies have been able to distribute certain mass insurance products⁵⁶ through financial institutions (bancassurance). Later, the SBS clarified that financial institutions can (i) hold group insurance on behalf of their clients; (ii) represent the insurance company that commercializes individual insurance products among its clients; or (iii) take out credit life insurance on its clients.

Communications and payments made to the financial institution are considered to be made to the insurance company and must be included in the policies. Insurance companies are liable for any wrongdoing committed by their appointed financial institutions. In addition, financial institutions must receive a specified minimum level of training in order to distribute insurance products.

Non-bank agents have been permitted since 2005 (Mas 2008).⁵⁷ Only the financial institutions authorized to do so can use NBAs; these include insurance companies, commercial banks, financial entities, CMACs, CRACs, EDPYMEs, CACs, municipal associations for popular credit, the Bank of the Nation, and COFIDE.⁵⁸ NBAs are natural or legal persons. They are used in microinsurance notably as part of the networks that financial institutions use to enter into bancassurance agreements. They can perform two activities of interest: receive

the payment for services and perform “other services” that the financial institution is authorized to provide. They can collect premiums but also can perform the same activities that the financial institution is entitled to perform in the context of the bancassurance agreement. All supervised entities are permitted to use NBAs. Recently, the SBS clarified that NBAs can sell microinsurance products.

In addition, two additional provisions will help to expand the network of financial institutions entering into bancassurance arrangements and the possibilities of direct selling by insurance companies: one allows companies issuing electronic money to enter into agreements with NBAs, and another creates the “aggregator of NBAs,” a legal person whose purpose is to affiliate and manage the operators of NBAs.

⁵⁶ However, SBS 2996/10 provides that, for insurance products linked with credit activities by financial institutions, it is possible to offer more complex products on assets or property when such assets or property are linked with the credit activity.

⁵⁷ In 2008 there were more than 2,400 banking agents, and Peru ranked fourth worldwide after Brazil, the Philippines, and South Africa in number of banking agents. According to the SBS, there were approximately 18,644 banking agents in Peru in December 2012 (Mas 2008).

⁵⁸ These institutions are mentioned in Annexes A, B, and D of Article 16 of the GLFS.

Insurance companies can use *marketers* to distribute mass insurance products and *microinsurance marketers* to distribute microinsurance products registered as such with the SBS. Marketers are natural or legal persons who provide licensed goods or services, have their own commercial branches, and have been approved by the SBS to act as marketer and enter into a commercialization contract with insurance companies. The commercialization contract allows them to act on behalf of the insurance companies. Any communication or payment presented or made to marketers is deemed to have been presented or made to the insurance company. Insurance companies must maintain records of the commercialization contracts and the information received by the marketer and make them available to the SBS.

Before 2010, insurance companies could not distribute their products through entities other than brokers, financial institutions, and insurance promoters, unless the products were labeled and registered with the SBS as microinsurance. One of the biggest regulatory incentives provided by the microinsurance rules was the possibility of distributing microinsurance products through “microinsurance marketers.” Marketers distributing mass insurance products are regulated in more detail than microinsurance marketers. This is also true for bancassurance marketers. Indeed, the conditions to be a bancassurance marketer or a marketer to distribute mass insurance products are more strict, and the requirements to act as a marketer are much more complex (annex 6). In contrast to this, insurance companies do not have to request approval to use microinsurance marketers, whereas to use mass insurance marketers and bancassurance marketers, they do. Indeed, from the moment the insurance product they are distributing is registered as microinsurance and they have entered into a commercialization agreement to distribute that product, they are considered to be microinsurance marketers. There is no register of microinsurance marketers.

In group insurance, policyholders of microinsurance policies can distribute the product, but to do so they have to enter into a commercialization contract.

Market conduct rules

A comprehensive set of market conduct rules applies to distribution channels and insurance companies when dealing with consumers.⁵⁹ We analyze this relationship in three stages: the precontractual stage, the contractual stage, and the complaints-handling and dispute resolution stage, bearing in mind the microinsurance value chain (figure 39).

In all cases, we pay particular attention to Microinsurance Resolution 2009 and recent regulatory developments, such as the New Insurance Contract Law and the resolutions on transparency of information and insurance contracts, premium payments, claims management and payment, and the use of electronic policies. Certain concerns arise in relation to the compatibility of the New Insurance Contract Law and the Microinsurance Resolution. These concerns are justified despite a final provision in the Insurance Contract Law, which stipulates that the applicable rules on microinsurance are those that relate specifically to those kinds of products. The same revision indicates that this would be “notwithstanding the principles of this Law.” As we will see, some provisions of this law and its regulation are more beneficial to the consumer than certain provisions of the Microinsurance Resolution; this does not mean that the latter is not appropriate for microinsurance consumers. At the same time, it may be less onerous for insurance companies to comply with the Microinsurance Resolution than with the Insurance Contract Law.

Precontractual stage

Advertising of insurance products is regulated. It is important to differentiate financial education strategies, which aim to increase the awareness of insurance and how it works, from marketing strategies, which aim to advertise particular products offered by particular companies. Insurance companies must provide information about the products offered to the public on their webpage and in the information brochures (qualitative and quantitative) that they or their distribution channels supply (table 14). They can use other marketing instruments, but these instruments have to be in line with the provisions. When they distribute

⁵⁹ We adopt the term “consumers” when there is no need to distinguish between the policyholder, the insured party, and the beneficiary. In some insurance contracts, those three capacities are not embodied in the same person.

their products through different channels, they must ensure that these distributors are trained to provide information about the offered products and that they have (and provide) information brochures.

Figure 39. Stages of the microinsurance contract

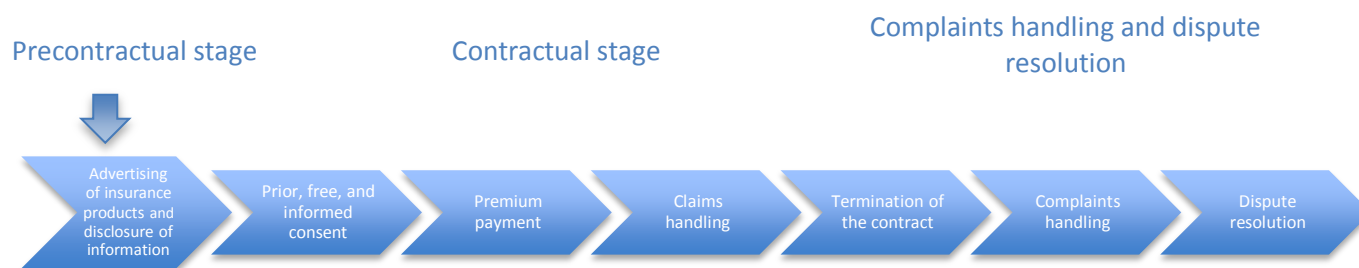


Table 14. Marketing requirements

	Qualitative information	
Webpage	brochures	Quantitative information brochures
Minimum information about offered products. SBS 3199/13, Article 6: ✓ Applicable cooling-off periods ✓ Distinctions by risk, cover, and exclusions ✓ Model of general conditions ✓ Minimum conditions approved when applicable ✓ Information about claims procedure, deadlines, and available channels ✓ Link to user webpage ✓ Reference to the Platform of Consumer Care of the SBS ✓ The options for registering complaints and solving disputes, such as company, INDECOPI, and Insurance Ombudsman, among others. ✓ Applicable procedure for presenting complaints to the company.	Information about the characteristics of the products. Brochures have to be drafted in an easy and comprehensible language with legible fonts. Insurance companies are responsible for providing their sales forces with enough information brochures to ensure that they provide the required information when selling their products. Brochures have to include the following information: ✓ Description of the product and identification code of the register of insurance policies ✓ Covered risks and exclusions ✓ Applicable deductibles, franchises, co-payments, or coinsurance ✓ Sanctions when insurance company does not respect promotional conditions ✓ Channels available for providing information and presenting complaints, indicating website, telephone, and address ✓ If part of group insurance, identification of the policyholder and policy number on the first page of the brochure and use of legible fonts.	Information about the applicable premium of the product. Brochures must be drafted in legible fonts and state the amount of the premium and the payment installment dates.

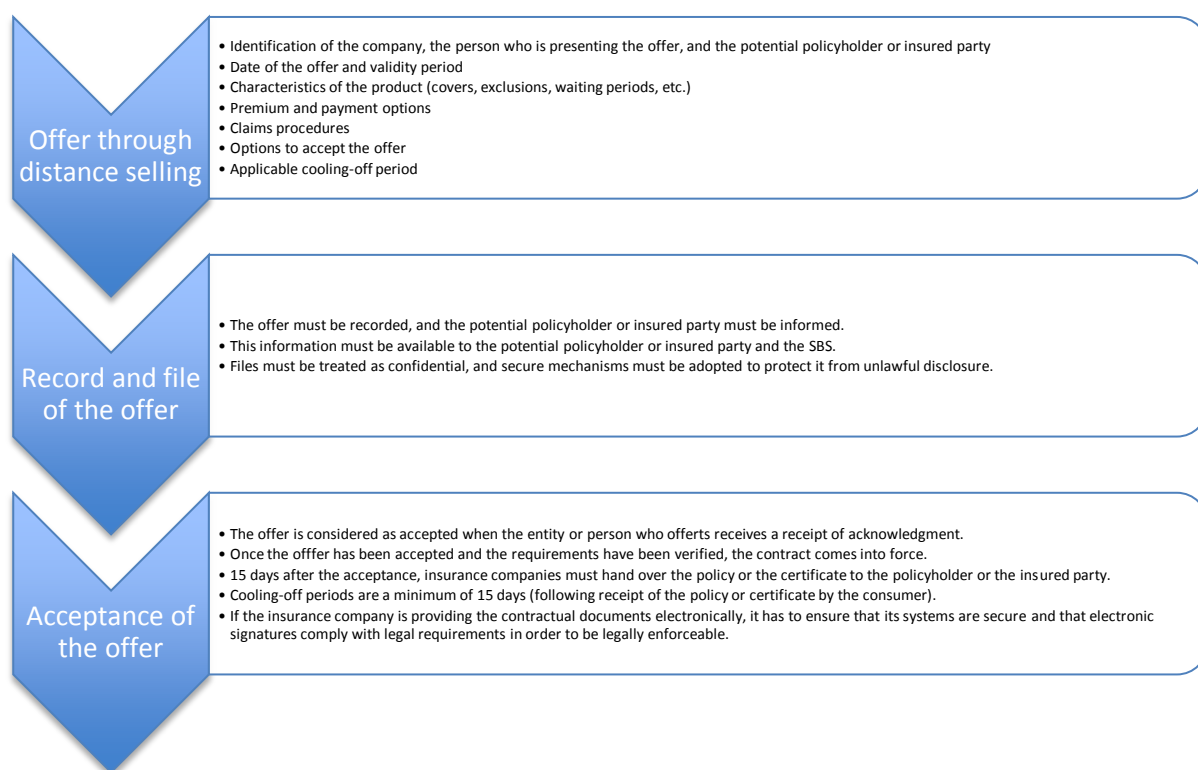
Information must be disclosed to consumers before they enter into the microinsurance contract. Upon preliminary contact with the potential consumer (which generally occurs when the consumer makes an “insurance request”), the company must provide the particular conditions that would be applicable. When marketers are used, insurance companies must inform the consumer that the company is responsible for any wrongdoing by the marketer, that communications provided by marketers will have the same effect (as they would if they had been provided by the company), and that any payment to the marketer will be considered to be paid to the company. The transparency requirement is an obligation not only on insurance companies and its distribution channels, but also on the insured party, who must disclose the state of the risk appropriately. If this is not done (or is done imprecisely or incompletely), the insurance contract could be void (if there is fraud), or it could be amended or terminated or compensation could be reduced (if there is no fraud). Given the consequences of not complying with these obligations, it is essential that the

relevant information be provided to the insured party before entering into the contract. The New Insurance Contract Law provides that, two years after entering into the contract, the insurer cannot invoke the imprecise or incomplete disclosure caveat unless there is evidence of fraud.

Contractual stage

The policyholder (individual insurance) and the insured party (group insurance) must provide consent prior to entering into the insurance contract. Such consent must be provided freely and based on transparent information. Therefore, consumers must receive clear, complete, relevant, and specific information in a timely manner in order to ensure that they understand the costs, rights and benefits, obligations, claims procedures, complaints-handling processes, and dispute resolution mechanisms.

Figure 40. Distant selling



Insurance contracts in Peru are formed by consent of the contracting parties.⁶⁰ There is no need to pay a premium or hand over a policy. This does not affect the fact that the start of the cover could be postponed until payment is made. Consent could be provided either tacitly or expressly.⁶¹ If expressly, consent could be provided orally or in writing, by any direct, manual, mechanical, or even electronic mechanism. Indeed, since 2000, electronic mechanisms have been recognized for the provision of consent.⁶² This facilitates distance selling of insurance products through the Internet or via the telephone. In all cases, insurance companies must comply with the requirements established in figure 40 when offering their products through distant selling.

In microinsurance group insurance is sometimes used to reduce costs and facilitate contractual processes. When using this mechanism, it is essential to keep four elements in mind. First, each insured party of the group must provide its consent and be aware that it has an exclusive interest against the insurer. When the contract is for life insurance, written consent must be provided. Only the contractual terms disclosed in the insurance certificate are binding. Second, if the insured party is a minor, the written authorization of his or

⁶⁰ They are the insurance company and the policyholder for individual insurance and the insured parties for group insurance.

⁶¹ It is tacit when consent is assumed to be provided, notably through the conduct of the contracting party.

⁶² Law 27.291/00.

Box 6. Issues that require SBS approval

Source: SBS 3199/13.

- ✓ The right of the policyholder or insured party to be informed about any amendment during the term of the contract and the ways of doing so
- ✓ The process for reporting preexisting medical conditions in the case of health insurance
- ✓ The obligation of insurance companies to pay out and the applicable processes
- ✓ Minimum documentation required to make a claim
- ✓ Available dispute resolution mechanisms
- ✓ Reasons for terminating or declaring a contract void
- ✓ Effects of the nonpayment of the premium
- ✓ Cooling-off period clause
- ✓ Reduction of compensation if the loss is reported after the deadline
- ✓ Other issues that the SBS provides.

her legal representatives is required. Third, when an insurable interest is owned by a third party, the consent of the third party must be obtained, and this party has the right to claim any compensation.

Even if the insurance contract is “consensual,”⁶³ the signature of the policyholder or the insured party is formally required (depending on the circumstances). A signature may be provided electronically. However, when it is not possible to obtain the consumer’s signature, insurance companies must have mechanisms for verifying that there was a “request for insurance.”

When the microinsurance marketer is a financial institution supervised by the SBS, it has to communicate to its clients or

members when the credit operation is linked to a microinsurance product, so that they are aware of the need to enter into an insurance contract. In more general terms, financial institutions offering credit life insurance must inform their clients, through their website (or other accessible media), that they have the right to choose the product offered by it or one offered by a different entity (providing it complies with the requirements of the financial institution).

The microinsurance contract is evidenced by the receipt of the payment of the premium, the policy (individual insurance), or the “request certificate” (group insurance). For conventional insurance, the contract must be evidenced in writing, and the existence of the contract may be evidenced by other means. Therefore, the provision applicable to conventional insurance is more advantageous to the consumer than the microinsurance provision.

To ensure that consent was effectively provided, a minimum cooling-off period of 15 days is applicable to insurance products sold out of the premises of the insurance company or the insurance broker or sold by a sales force. If sold through a sales force, written information about the cooling-off period has to be provided in clear language and highlighted fonts. In addition to the cooling-off period, some insurance companies have adopted self-regulation strategies. For example, Mapfre has implemented cross-selling calls to policyholders after the sale. A contract can be modified, but the insurance company has to ensure that insured parties are aware of any modification at least 30 days before it takes place. When the insured party does not say anything, it is understood that he or she has accepted the modification.

Policy models do not need to be approved by the SBS, but they do need to be filed before their use and application.⁶⁴ Nonetheless, certain products, including personal,⁶⁵ mandatory,⁶⁶ and mass insurance policies, need to comply with the minimum conditions, and certain clauses must be approved by the SBS (box 6). Approval of the minimum conditions of such products is considered a condition for registering the product. Insurance companies can adopt the minimum conditions that have been approved by the SBS for other insurance companies, either individually or as a group, and APESEG could play a role in standardizing clauses through self-regulation. All policies previously registered for personal, mandatory, and mass insurance are being reviewed and modified by insurance companies in order to comply with the New Insurance Contract Law. Once approved, these minimum conditions must be disseminated through the webpage of the insurance company and through the SBS website. When policies do not comply with the minimum requirements or are different from those established by the SBS, the SBS can prohibit such clauses. In addition, the SBS can order the inclusion of clauses that promote consumer protection.

⁶³ This is the case for conventional insurance and microinsurance (Microinsurance Regulation 2009, Article 6).

⁶⁴ The models of the policy have to be sent to the SBS before the contracts can be sold commercially, and the fact that they are microinsurance policies must be noted. They also must be registered in the registry of policies of insurance and technical notes.

⁶⁵ Insurance that covers life and health, meaning life insurance, personal accident insurance, and health insurance.

⁶⁶ Mandatory insurance is insurance for which the entry into and the conditions of cover are required by legal norms.

Extra protection is provided to consumers of sensitive and high-risk products, such as mass, mandatory, and personal insurance. This extra protection is not extended expressly to microinsurance products.

Abusive clauses are prohibited and considered void. Abusive clauses are defined as those that go against the requirements of utmost good faith and the equilibrium between the parties. Such clauses include clauses that withdraw favorable jurisdiction and applicable laws; those that restrict the right of the insured party to seek to resolve conflict by judicial methods; those that establish additional charges, for instance, the “commission” charged by marketers; and those that limit possible venues for registering complaints or settling disputes. In addition to abusive clauses, certain prohibitive practices are barred, including those that (i) impose (directly or indirectly) the obligation to enter into an insurance contract, unless it is mandatory (credit life is not mandatory) and those that (ii) misrepresent information about the product, the company, or the marketer.

The fact that there may have been a prior approval of minimum conditions or the determination of abusive clauses does not mean that consumers cannot seek redress before administrative and judicial entities in order to protect their rights if and when abusive practices are adopted.

For conventional insurance, the contractual documents include the insurance request,⁶⁷ the policy,⁶⁸ the insurance certificates,⁶⁹ the summary of the covers, and rights of consumers, among others. There are only two contractual documents: the “simplified policy” for individual insurance (which contains the “request for insurance”) and a “request certificate” for group insurance. Microinsurance marketers must provide simplified policies within 10 days and request certificates within 15 days (for conventional insurance, within 15 days). As shown on table 15, the minimum requirements for simplified policies and request certificates are similar to those for policy and insurance certificates in conventional insurance. The difference lies in the substantive limitations imposed on microinsurance products, such as the fact that they should not include exclusions, co-payments, deductibles, or franchises, among other issues.

Box 7. Summary of the cover

The “summary of the cover” is an interesting feature of conventional insurance recently introduced by the Insurance Contract Law, which might be used in microinsurance. This summary of the cover must include general information about the insurance company and the product; the conditions to pay the premium; applicable deadlines to notify the loss; claim procedures; available options to register complaints; a list of entities to which complaints could be presented, such as the SBS and the INDECOP. This summary of the cover must include two standardized sentences: consumers have obligations under the contract and if they do not comply with them the payment of compensation or any other benefits could be affected; during the contract, the insured party has to inform the company of the facts and circumstances that could aggravate the insured risk.

Simplified policies and request certificates in microinsurance are an attempt to provide information in a simpler and much shorter document. They have been welcomed by the insurance companies, which say that they facilitate the transaction in terms of speed and cost. In the IMASEN study, respondents insisted on the importance of receiving simple documents, drafted in a simple language and in readable fonts (IMASEN 2013). Simplified policies are similar to the “summary of the cover” provided in the New Insurance Contract Law (box 7). When these microinsurance documents are compared with the “summary of the cover,” the latter seems more appropriate and complete, notably regarding the rights and obligations of consumers. In addition, not only must the document be simple and short, but the vocabulary used must be uncomplicated. Attempts

at self-regulation, such as the adoption of standardized clauses for microinsurance, are important in this context. In theory, no additional documents can be required for entering into an insurance contract.

⁶⁷ The insurance request entails the disclosure of risk for each policy to avoid the failure on the part of the consumer to provide relevant or exact information. This document must state that, after 15 days, insurance companies must inform consumers whether the request was rejected or accepted.

⁶⁸ Within 15 days after receiving the insurance request and accepting it, the insurance company must provide a copy of the insurance policy to the policyholder or insured party.

⁶⁹ Documents must be provided for each insured party in group insurance.

Table 15. Simplified policy vs. policies in conventional and mass insurance

Issue	Simplified policy and simplified request certificate: microinsurance	Policies: conventional insurance
Language	Policies are drafted in Spanish unless the parties agree to something different	Policies are drafted in Spanish unless the parties agree to something different
Characteristics	Policies must be written in simple and comprehensible language. They cannot contain clauses that could impair the simplicity, clarity, and understanding of microinsurance. They should not contain exclusions, but if exclusions are required, they must be “minimal” and consistent with the cover offered by the product. Previous verifications in respect of the insured person or property must not be used, unless required by the nature of the insurance. Policies cannot include deductibles, co-payments, or franchises.	Policies must be drafted clearly and simply, ensuring understanding without any cross-referencing to other clauses or agreements not contained in the policy. Legible and enhanced fonts must be used. General, particular, and special conditions must be drafted in fonts not less than 3 millimeters. Clauses that limit the term of the statute of limitation, limit consumers’ rights, and impose exclusions must be highlighted and different from the rest of the text or they are deemed struck out.
Minimum requirements	<ul style="list-style-type: none"> - Identification of the insurer (name, address, and phone) and the policyholder or insured party, indicating date of birth, form of identification, and address - Identification of the marketer - Detail of covers and exclusions - Claim procedures - Deadlines for payouts - Complaints-handling procedure - Indication that all communications handed over to the microinsurance marketer are considered handed over to the insurer - Identification of the beneficiary - In the case of group insurance, stipulations that each insured party has the right to request a copy of the policy with its conditions 	<p>When the following requirements are not included, any construction of the policy will be in favor of the insured party:</p> <ul style="list-style-type: none"> - General and special conditions of the contract - Identification of the insurer, policyholder, insured party, and beneficiary when applicable - Covered risks and exclusions - Date of the policy, date when the cover starts - Commercial premium as distinguished from sale or VAT. The commercial premium must be presented and indicate any charges by the applicable broker, insurance promoter, and marketer. In addition, any additional payments or benefits to brokers or marketers must be disclosed - When the premium is divided, the schedule of payment must include any applicable interest payments - Insured amount - Applicable franchise and deductibles - For life insurance and personal accident insurance, the statement that the contract is part of the national register of information of life insurance and personal accident insurance - Indication of documents and information required to submit a claim - Claims procedures - Any applicable cooling-off period - Renewal or unilateral extension right of the contract (if applicable) - Complaints-handling procedure - Dispute resolution mechanisms

Who pays the premium? When a loss occurs, the insured party and the beneficiary are jointly responsible for paying the remaining premium. Compensation is also possible. The insurer cannot reject the payment of the premium offered by a third party. This option could help to overcome the limitations that Jet Peru (a remittance company) found when offering its product. This is very different from a situation in which someone takes out insurance on the life of a third party. Here the policyholder and the insured are the same person, and the person who pays the premium does not have any influence on the contractual relationship.

Box 8. Potential of mobile money in microinsurance in Peru

Access to mobile phones has increased considerably in Peru, particularly in rural areas (Palomino, Cáceres, and Kanashiro 2011). In 2006 there were 6 million mobile phones in Peru, increasing to 18.5 million by 2008. In some areas, there are still “myths and fears” regarding the use of mobile phones (Palomino, Cáceres, and Kanashiro 2011). Some people are afraid that mobile phones cause cancer or attract lightning and thunder. They are worried about scams and fraud surrounding mobile technology. The IMASEN study found that respondents are not comfortable purchasing an insurance policy through mobile phones, mainly because of concerns relating to fraud and scams. However, most respondents would like to receive premium payment reminders through mobile phones and additional information regarding the insurance features and coverage.

During our consultations, we found evidence that mobile phones are being used as transactional platforms for insurance products targeting segments C, D, and E. For example, Positiva Vida is offering *SMS vida* at a cost of US\$1.50 per month. This amount is deducted from the balance of the consumer’s prepaid plan with Movistar. The insured amount for natural or accidental death is US\$1,000 plus a monthly payment of US\$100 for one year.

There is growing interest in using mobile phones as transactional platforms. This development has been encouraged by the new set of regulations and by some private sector initiatives, such as the interest of ASBANC a shared e-money platform in 2014 and pilots that are being designed and implemented by Scotia Bank and Jet Peru.

How can premiums be paid? The premium is owed from the moment of entering into the contract. The payment can be made in installments or varied. The payment of the premium must be registered appropriately. Premiums must be paid to the insurance company or sales force. In the latter case, payment to the sales forces is considered as payment to the insurance company. With recent passage of the electronic money regulation, it became possible to pay the premium using different methods. Indeed, the E-Money Law, regulated by OSIPTEL and the SBS, allows electronic payment through mobile phones. In the SBS regulations issued in October 2013, the SBS aimed to promote a healthy and competitive environment for mobile money, while ensuring consumer protection (box 8).

Insurance premiums are generally subject to VAT. However, some products are exempted from that payment, including life insurance products, insurance products that are part of the private pension system, and the premiums for insurance under the program

of credit insurance for small enterprises. Currently, there is a discrepancy between APESEG and the National Superintendence of Tax Management (SUNAT): because the premium is sometimes paid in installments, the SUNAT considers that the obligation to pay VAT arises when payment is due, not when payment is effectively received.

Box 9. The register of life insurance and civil liability insurance contracts

In Peru a register of life insurance and civil liability contracts (Law 29355/09) operates as a database kept by the SBS, which facilitates the knowledge sharing between policyholders, insured parties, and beneficiaries about insurance products. This element is important, as it increases the probability that beneficiaries will be aware of the existence of a policy. Nevertheless, its use is quite limited in microinsurance: few people are aware of its existence, and many are geographically isolated and do not have effective access to the SBS.

Microinsurance Resolution 2007 provided a grace period for paying the premium, but this is no longer the case. Nevertheless, in most of the insurance policies analyzed, grace periods are provided when the premium is paid. The regulation applicable to conventional insurance is more protective than Microinsurance Regulation 2009, which allows the company to terminate the contract when the premium is not paid. The New Insurance Contract Law provides a grace period of 30 days, followed by a period of suspension of cover. The nonpayment of the premium

leads to the automatic suspension of the cover, but only after 30 days from the deadline for paying it. During these 30 days, the insurer must inform the insured party that it has not paid the premium, about the consequences of nonpayment, and the deadline for paying the premium before the insurance cover is suspended.⁷⁰ From the moment of the suspension, the insurer can terminate the contract.

These provisions do not apply to microinsurance. The microinsurance regulation does not recognize the suspension period.

⁷⁰ The insurer is not responsible for losses caused while the cover is suspended. During this period, the cover could be reinstated after the payment of due premiums.

According to the rules on claims management and payment, for property insurance, the loss must be notified to the insurance company within a maximum of three days after becoming aware of it, unless a longer deadline is established. For personal insurance, the loss must be notified to the insurance company within seven days after becoming aware of it. Such periods are also applicable to microinsurance. When marketers become aware of the death of the insured party, insurance companies must ensure that marketers notify them as soon as possible. Peru has created a national register with information about life insurance and civil liability insurance contracts. The register increases the probability that beneficiaries will be aware that they are beneficiaries of a life insurance policy or of a civil liability insurance policy (box 9).

The insured party (or the beneficiary) must present the claim with the documentation requested in the policy. The claim request presented to marketers is understood to be presented to the insurance company, which has to process it for the insurer or the broker.

In conventional insurance, claims have to be handled in 30 days. No provision regarding this point was made for microinsurance.⁷¹ However, payout must be done in the 10 days after registering the claim, which means that, in total, insurance companies have only 10 days to handle and pay a claim.

If the insurance company does not accept or reject the claim, it is deemed to have accepted it. The rejection of a claim must be justified and notified.⁷² Insurance companies must send details of rejected claims to the SBS every three months and must make the claims file available to the SBS. For property insurance, the informality of the activity or the legal situation of the insured party does not entitle the insurer to reject the claim when there is no causal relationship between the loss and this fact or when it is determined that the insurer is acting in bad faith.

Either the insurer or the microinsurance marketer could pay the compensation. In microinsurance, the payout has to be made within the 10 days after receiving the requested documents indicated in the policy. Nevertheless, insurance companies can establish a shorter period. In conventional insurance, it is 30 days. This difference is an important benefit for microinsurance consumers. If the deadline is not respected, the insurance company must compensate the insured party or the beneficiary.

During our consultations, insurance companies said that they have difficulty complying with the limitation applicable to microinsurance given the particularities of the population in segments C, D, and E. They said that these particularities lead to difficulties, such as not being able to reach the beneficiary (geographically) or to identify the person (and if the person is identified, being unable to contact him or her). Most of the insurers said that they respect the deadline and sometimes even apply shorter deadlines.

The compensation must be paid to the beneficiaries (or, if not determined, their legal successors), and such payment is excluded from income tax.

Insurance contracts are generally for one year and include a clause for automatic renewal. Some insurance contracts can be terminated without explanation, but a 30-day notice must be provided to the insurer. This provision is not applicable to life and health insurance.

Complaints handling and dispute resolution

Microinsurance consumers must be made aware of the existence of complaints-handling and dispute resolution mechanisms and have effective access to them. For example, customers may wish to dispute a decision made by the insurance company with regard to a claim or to register a complaint with the insurer. Microinsurance complaints must be handled within 15 days. The SBS has recently highlighted the

⁷¹ Microinsurance Regulation 2009 establishes a deadline of 15 days for *reclamos*, which are complaints, not claims.

⁷² The rejection of the claim must include a reference to the dispute resolution mechanisms in the following terms: "In the event of a disagreement with the rejection of the claim, you could use the available venues to solve disputes, such as the Insurance Ombudsman (defaseg.com.pe), the INDECOPI (www.indecopi.gob.pe), or the judicial courts or the arbitral tribunals, depending on the agreement of the parties."

importance of strengthening consumer care systems and ensuring that insurance companies have such a system in place (box 10). With such a system, trained personal should provide true, timely, appropriate, and sufficient information about products and services in order to foster public trust in the insurance market. There is no evidence of mechanisms that maintain and publish reports and statistics on the handling of complaints by insurance companies.⁷³

Box 10. Minimum requirements for dispute resolution mechanisms according to the SBS

Source: SBS 3199/13.

The dispute resolution mechanism must have:

1. Members that are well-known professionals with at least five years of experience in insurance, no previous link with the particular insurance company, insurance and reinsurance brokers, and insurance auxiliaries in the previous three years, and accredited knowledge of insurance
2. A code of ethics
3. Resolutions that are enforceable and binding for insurance companies
4. Staff who are competent to resolve disputes related to claims and other issues relating to the insurance contract
5. Staff who are available on all business days of the year for a minimum of eight hours a day
6. Appropriate mechanisms that allow consumer access at a national level, such as telephone hotlines and webpages
7. Webpages that contain information about tasks, members, decided cases, and statistics of complaints made classified by risk, which can be accessed easily.

When complaints are not resolved by the internal complaints-handling mechanisms, insurance consumers have other forums for resolving complaints and disputes. Dispute resolution mechanisms must be accessible, transparent, impartial, independent, simple, specialized, fast, and affordable. Insurance consumers now have the following options for resolving disputes: the SBS Platform of User Care; the Insurance Ombudsman; the INDECOPI; and other mechanisms, including traditional (judicial) and alternative (conciliation, arbitration, and mediation, among others) dispute resolution mechanisms.⁷⁴

As indicated in the complaints-handling section, consumers must be aware of and have access to these mechanisms, and information about the mechanisms for handling complaints and resolving

disputes must be disclosed in the terms of the contract.

The Platform of User Care is not intended to settle disputes between the parties stemming from the insurance contract. Rather, it is intended to enable the SBS to study potential administrative failures of insurance companies and impose administrative sanctions. The SBS keeps a register of internal complaints under this platform, but it does not publish statistics about complaints.

The INDECOPI has an independent administrative tribunal that settles disputes between consumers and providers. However, the consumer must pay a fee in order to access it.

The Insurance Ombudsman created and financed by APESEG seems to be appropriate for microinsurance consumers, as access to it is free. In addition, it is composed of four lawyers specialized in insurance; the deadlines for a decision are shorter (approximately three months); there is no requirement to hire a lawyer; its competence threshold is appropriate for microinsurance products;⁷⁵ and its decisions are binding on insurance companies but not on consumers. The following aspects could hinder its use in microinsurance, although mechanisms are being analyzed in order to overcome them.

First, the Insurance Ombudsman is based in Lima and does not have representation in rural areas. The SBS recently noted that dispute resolution mechanisms must guarantee access in isolated areas, notably by telephone or a webpage. This seems appropriate, as the Insurance Ombudsman said that it is willing to improve its website in order to provide clearer and simpler information regarding the applicable process. In addition, it is studying the possibility of adopting templates to register complaints that are easy to handle and understand. Such templates would be made available through the Internet. Second, it is financed by APESEG, which means that potential conflicts of interest sometimes arise. Third, its capacity will certainly

⁷³ Insurance companies, through their consumer care official, are only required to submit a general report once a year.

⁷⁴ The bill proposing the New Cooperative Law (Proyecto de Ley 604/2011-CR) creates a specific entity that will be in charge of resolving disputes between members and cooperatives.

⁷⁵ The Insurance Ombudsman is authorized to handle low-amount disputes of less than US\$50.

increase, as the New Insurance Contract Law provides that it can now handle disputes relating to any issue of the insurance contract (before it could only handle disputes about claims payouts).

The respondents to the Datum survey demonstrated very little knowledge regarding (alternative or traditional) dispute resolution channels.⁷⁶ When asked where they could go to place a complaint about insurance products and services, the 400 respondents with an insurance product answered as follows: INDECOPI (38%), insurance company (25%), the SBS (19%), Insurance Ombudsman (13%), Ombudsman for the People (Defensoría del Pueblo, 8%), a broker or a bank or financial institution (4% each), and the police or the public prosecutor (3% each). In addition, 11% said that did not know or did not provide an answer.

Insurance consumers also have access to traditional and alternative dispute resolution mechanisms. Parties can choose any mechanism for resolving disputes stemming from an insurance contract, but if they want to use arbitration, the dispute must be above a certain threshold. This provision makes sense, given that arbitration is expensive and not appropriate for low-value disputes.⁷⁷ Consequently, arbitration is permitted only when damages or claimed losses are over a certain amount. This threshold applies not only to arbitration but also to “any other mechanisms of dispute resolution.” This is problematic, as it restricts access to dispute resolution mechanisms in general, which is certainly against international and national commitments related to the administration of justice.

⁷⁶ Alternative dispute resolution mechanisms refer to methods of resolving disputes outside the traditional dispute resolution mechanisms, which are provided by judicial and administrative forums.

⁷⁷ Microinsurance Resolution, number 10, takes a weak stance, providing that “Arbitration, as a dispute resolution mechanism, could be considered in the cases where the rights of the insured party are not limited.”

6. Findings

In this section, we provide an overview of the findings and then highlight specific ones in respect of demand, supply, supervision, and regulation.

Overview

The Peruvian government places great importance on financial inclusion and on risk management strategies, and insurance plays an essential role in both of these. The government has made the inclusion of risk reduction measures a condition for funding major public projects, and the MEF has created a risk management department. Insurance is seen as an appropriate and effective strategy for reducing the vulnerability of persons in socioeconomic levels C, D, and E. The preamble of Microinsurance Resolution 2009 states, “In order to promote the economic and social development in the country, it was necessary that the less favored sectors have access to the benefits of insurance in order to guarantee the continuity of their activity and the protection of their families.” Insurance also plays an important role in the government’s financial inclusion strategy (annex 5).

More insurance products are offered to segments C, D, and E than are registered as “microinsurance” with the SBS. Only a small proportion of microinsurance products are registered as such with the SBS. We identified six types of products that comply with the definition of microinsurance adopted in this study: (i) products registered as microinsurance products with the SBS; (ii) mass insurance products that are distributed by MFIs; (iii) products that are mandatory by law and could be available to socioeconomic segments C, D, and E; (iv) mass insurance products that are distributed to segments C, D, and E through alternative distribution channels; (v) insurance-like products that are offered to segments C, D, and E; and (vi) insurance products that are offered to these segments by the government (or with government involvement). We counted 172 products that can be considered microinsurance in the wider sense, and only 40 products that are registered as microinsurance products with the SBS.

Approximately 6.1 million people in Peru are insured by microinsurance products: 22% of the total population and 40% of the target market (segments C and D). Approximately 8.6 million people in segments C and D are still unserved by insurance. Segment E is a potential target market for microinsurance in the future. Some of the 6.1 million people may be covered by a microinsurance product are from segment E, but it is difficult to determine the extent to which this segment is or is not being served by insurance. However, using the approximation presented in the introduction to this study, about 10.5 million people (segment E) who are currently without insurance are a potential target market for insurance.

The Peruvian microinsurance market is growing and on the verge of diversifying. More people are being covered by microinsurance, and the product offering is becoming more diversified. Credit life is the most offered product, but its market share is not that large (38% of policies). Many voluntary products have a similar market share, such as life, accident, funeral, and even some general insurance, such as multi-risk insurance that provides cover against fire, earthquake, theft, assault, and burglary. Despite diversification in the type of microinsurance products being offered, credit life insurance still insures the most people (74% of the insured population) compared to only 15% for accident, life, or funeral insurance and 11% for general insurance.

The offer of microinsurance products is led by private insurance companies. Only licensed insurance companies can act as risk carriers in Peru. However, some entities offer insurance-like products, including a range of community-based organizations, funeral service providers, health care providers, and small MFIs that provide self-insurance. The proportion of these products is still low. The SBS is monitoring this in order to assess the risks that could arise, consider sanctions that may be imposed on the relevant entities, require a change in product design, or suggest a particular “transition path” that could be adopted to remedy the

situation. The regulation of health insurance allows health care providers and some mutual associations to offer these products; in such cases, they are supervised by SUNASA.

Almost all insurance companies are offering microinsurance products, and the market is not concentrated in any one institution. Nine insurance companies have registered products as microinsurance with the SBS. However, 12 out of 14 insurers offer some sort of microinsurance to segments C, D, and E.

MFIs are by far the most frequently used channel for distributing products in Peru, but the development of this channel is quite uneven. Most of the microinsurance products are distributed through MFIs (80%), which distribute insurance products to segments C, D, and E through bancassurance marketers. In most cases, they act as policyholders of group insurance, where the group is made up of their clients.

MFIs are heterogeneous, and their involvement in insurance is heterogeneous as well. We found four categories of MFIs: (1) MFIs that distribute “sophisticated” insurance products; (2) those that distribute credit-linked insurance products with added value; (3) those that distribute basic credit-linked insurance products; and (4) those that are not yet distributing insurance products. Some have not developed their distribution channels as quickly as their microcredit services. Their level of engagement is strongly linked with their size, the strength of their relationship with their clients, and their links with insurance companies (whether or not they are part of a conglomerate). Generally, MFIs in categories 2, 3, and 4 lack a consolidated strategy, lack knowledge of available products, and lack incentives and training in respect of insurance. However, organizations such as COPEME, ASOMIF, and PROMUC are aiming to coordinate their efforts in this regard.

Some insurance companies are innovating with distribution channels by “trial and error.” Utility service companies and retailers such as Saga Falabella, Wong, Ripley, and Metro have been used to distribute insurance products. However, such passive sales techniques have not been successful in Peru, particularly in segments C, D, and E. Nevertheless, there have been some long-lived innovations in distribution channels, such as distribution by pharmacies, associations and boards of rural irrigation, providers of natural gas for vehicles, and providers of home and business security services. Each of these channels has its own challenges and advantages. Both insurers and distribution channels are aware of the challenges and are exploring ways to overcome them.

The products on the market do not necessarily meet consumers’ needs. The majority of insurance products offered to segments C and D are credit life (38%), followed by accident and life insurance policies, including endowment and funeral insurance (27%), and general insurance (23%). Other insurance products, such as health (6%), SOAT (3%), agriculture (2%), and unemployment (1%), are rarely offered. However, there is overwhelming demand for health, life, and property insurance.

The demand and supply in respect of life and property insurance is more coherent. In the studies of demand, respondents barely mentioned catastrophic events. However, given Peru’s level of exposure to natural disasters, there is clearly a need for these scarce products.

Regulation in Peru aims to reduce excessive barriers that could hinder the development of insurance for segments C, D, and E. However, regulatory barriers continue to discourage insurance companies from formally registering as microinsurance the products that they offer to segments C, D, and E. Peru has been extremely committed to promoting access to insurance through a supportive regulatory framework.

First, broader (not specific to microinsurance) advances in insurance regulation have facilitated the development of the microinsurance market, such as the bancassurance rules, and the possibility of distributing insurance products through marketers. Among the 172 insurance products available to segments C, D, and E, 117 are distributed by MFIs under the bancassurance rules, 35 under the Microinsurance Resolution, and 15 by marketers under the marketers’ rules.

Second, in 2007 the SBS adopted a regulation aiming to promote access to insurance among the poor. In Microinsurance Resolution 2007, the SBS adopted a quantitative definition of microinsurance.⁷⁸ Later, this resolution was abrogated by Microinsurance Resolution 2009, which adopted a qualitative definition. Through such reforms, the SBS has removed barriers to access and facilitated the distribution of microinsurance by allowing the use of alternative distribution channels: the microinsurance marketers. In addition, the SBS has removed barriers that slowed down and complicated the process and targeted sensitive elements related to market conduct rules by allowing the use of simplified policies and individual certificates and by reducing the deadlines for processing claims and handling complaints. The SBS has also promoted the simplification of products by introducing nonverification of the risk (unless the nature of the insurance requires otherwise), prohibiting exclusions (unless they are “minimal” and consistent with the risk), and prohibiting deductibles, co-payments, and franchises. Therefore, insurance companies can use different regulatory provisions to reach segments C, D, and E in Peru. This flexibility has had (and will continue to have) a positive impact on access to insurance.

However, some obstacles are still keeping insurers from registering their insurance products as microinsurance with the SBS. Certainly, insurance companies consider some of the aspects introduced by Microinsurance Resolution 2009 to be incentives, notably the ability to use simplified products and distribution channels not previously available for insurance. However, they consider other aspects to be discouraging, such as the prohibition on exclusions and the tight deadlines for paying claims.

Even though insurance products are not registered as microinsurance with the SBS, they are being marketed and sold to consumers as microinsurance products. In such cases, it is difficult to determine what regulation is applicable. End consumers are typically not aware of this confusion, as they are generally not aware of, and do not understand, the differences between the two regulations. However, the confusion may affect distribution channels (generally MFIs), which typically assume that if the product is branded and sold as microinsurance, the Microinsurance Resolution is applicable, notably with regard to payout deadlines. They may subsequently discover that the product is not registered as such with the SBS.

The most important incentive of the Microinsurance Resolution 2009—the microinsurance marketer—has been undermined, but was it really an incentive in the first place? Microinsurance Resolution 2007, followed by Microinsurance Resolution 2009, removed a previous access barrier that only allowed insurance brokers, insurance promoters, and financial institutions to distribute insurance products (the last two can only distribute mass insurance products). One important incentive for insurance companies to register their products as microinsurance is the ability to use other entities as distribution channels. However, this incentive was undermined in 2010 when the SBS allowed all mass insurance products, not only products registered as microinsurance with the SBS, to be distributed through channels other than financial institutions and insurance promoters. In addition, the SBS did not require mass insurance products distributed through marketers to comply with the particularities required for microinsurance. Insurance companies consider these particularities to be “costly.”

Demand

A weak insurance culture, distrust, and a preference for present over future rewards affect all segments of the population and undermine the development of the insurance market.

The term “risk” might not be the most appropriate term to use. Segments C and D see “risk” as something that cannot be avoided or managed. They do not think that they “have the power” to manage their risks. However, they respond positively to the term “unexpected events,” which they believe they can manage.

⁷⁸ According to Article 2 of the Microinsurance Resolution 2007, “Microinsurance is a reduced benefit and low-cost mass insurance product, which aims to provide effective protection for natural persons and microentrepreneurs, when confronting human and patrimonial risks, which could affect them.” Article 3 provides that microinsurance premiums must not exceed US\$3.30, and benefits must not exceed US\$3,300.

Insurance is not the preferred coping mechanism of segments C and D. Indeed, insurance is only marginally considered as a risk-coping mechanism; when it is considered, it is in the context of risks such as a serious illness (4% of respondents in the Datum study), the death of a family member (2%), a traffic accident (2%), and a work-related accident (5%). Using savings, borrowing money from friends and financial institutions, organizing community fundraising events, and even working overtime are the preferred coping mechanisms of segments C and D.

Segments C and D have little trust in insurance companies. Many people do not understand how insurance works and do not read insurance contracts, even when they receive one (which many do not). They often think that insurance companies make a profit by not paying out on claims. This generally leads to distrust of insurance companies, especially when a claim is made and the outcome is not positive for the consumer (even if it is the correct outcome). However, 68% of respondents to the Datum study with private insurance indicated that they believe that insurance companies would comply with their contractual obligations. There clearly is work to be done in educating the public about how insurance works and its benefits (as well as room to improve public perceptions).

There is general confusion in respect of who carries the risk behind a policy—the insurer or the marketer. This is the case when, for example, a consumer buys an insurance product from a financial institution that is acting as a distribution channel. The lack of clarity over who is the risk carrier (the financial institution or the insurer) raises concern that, if a financial institution acts badly, the reputation of the underlying insurer could be adversely affected.

Segments C and D do not differentiate insurance from microinsurance. They are not aware how the specific regime might benefit them. Therefore, insurers should consider how to distinguish between conventional insurance and microinsurance in the mind of the potential target market.

There is little differentiation between private insurance and government schemes, especially for health care services, and this is affecting the “reputation” of insurance. Most of segments C and D associate insurance with health insurance (SIS or EsSalud). Given that they consider the quality of public health services to be generally poor, such an association undermines the development of the microinsurance market.

The tangible benefits of products are not evident. Insurance is perceived to have no clear benefits that consumers can enjoy in their lifetime. Some consumers are not sure whether they are going to get their premiums back; others think that receiving nothing in return for the premium is tantamount to “robbery” and prefer not to get involved with insurance in the first place.

Segments C and D want simpler contracts. They want simpler contracts, with simple vocabulary and bigger fonts. However, consumers do not read the contracts; therefore, it is likely that they are not aware of or do not understand their rights and obligations under the contract. They need clearer explanations during the enrollment process. According to the Datum study, 58% of respondents who had insurance said that the policy did not cover what had been explained to them in the enrollment process and that the conditions were not clearly explained. For instance, in respect of credit life, insured parties are rarely aware even that they are being insured.

Products are considered to be too expensive for the benefits provided, but there is disposable income to buy insurance products. Most of the respondents in the IMASEN study (53%) said that premiums are too high compared with the benefits provided by the product. When asked why they had not bought an insurance policy, they said that they do not need one (28%), the costs are too high (25%), they do not trust insurance in general (12%), and insurance does not fit in with their needs (12%). Smaller percentages said that insurance has too many requirements (7%) and they do not know where to buy insurance (6%). Only 3% mentioned having insufficient disposable income to afford insurance, and only 2% mentioned lack of understanding.

Lack of access in rural areas, the reduced capabilities of segments C and D, and the diversity of languages and religious aspects are all demand-side barriers to the development of microinsurance. Dispersion, isolation, lack of infrastructure, lack of awareness about risk management strategies, and a multiplicity of languages are all barriers, especially in rural areas, that impede reaching the critical mass that microinsurance needs to be sustainable and profitable. This situation particularly affects agricultural insurance, given that insurance companies are rarely represented (either directly or through their distribution channels) in the areas covered by it. Microinsurance products are offered principally in urban and peri-urban areas; in rural areas, they are only offered in administrative centers.

There is no clear evidence of the impact of financial education strategies (whether public or private). The SBS has adopted a strategy on financial education, with financial inclusion at its core. The government and its entities are committed to encouraging demand by providing financial education. However, none of the respondents in the IMASEN study had heard about financial education strategies that aim to improve literacy on risk management, insurance, or financial services more broadly. This outcome is consistent with the findings of the first national survey on financial literacy: financial literacy rates are still very low in Peru.

Segments C and D lack knowledge of and access to effective complaints-handling and dispute resolution mechanisms. They are not aware of the complaints-handling and dispute resolution mechanisms that are available to them. Typically, they contact the insurance company or the distribution channel. In particular, they do not know anything about the Insurance Ombudsman or the external complaints-handling mechanisms in the SBS.

Although savings are an important risk-coping mechanism, they are rarely maintained; more effective risk-coping mechanisms are needed. People save regularly, they keep savings at home and save in small amounts, and they tend to save money to confront “events,” but they often end up spending their savings on goods that they do not necessarily need.

Community and family support and social events to raise funds for life cycle or unexpected events are widespread, especially among segments C and D. Such community mechanisms are more widespread in rural areas but are also found in peri-urban areas. However, rapid urbanization is undermining such traditional coping mechanisms.

When assessing the purchase of an insurance product, the prestige of the insurer is an important factor for consumers. However, their decision is not necessarily well founded. When considering which financial institution to choose, segments C and D assume that insurers located in shiny buildings, with impressive offices, and a well-known brand are solid institutions. They tend not to base their decisions on circumstances related to the soundness, “consumer-friendliness,” or statistics of an insurer. Financial education could help consumers to base their decisions on “facts and figures” rather than on appearance.

Supply

Certain current practices are marked by poor product design, offer little value to clients, and involve a long delay before paying out on claims. These practices undermine consumer confidence in the market and jeopardize future growth.

Insurance companies underuse direct selling and are extremely dependent on distribution channels, even though there is room to explore direct selling in microinsurance. Regulation provides mechanisms for selling insurance products directly, such as at offices, at sales points, through distant selling, and through insurance promoters. Insurance companies find it difficult to offer their products directly to these segments, given that they do not have a presence in certain provinces or in rural and isolated areas. They could extend their reach through “shared premises,” direct selling, and sales points, but these options are scarcely used. In particular, insurance promoters could play an important role here.

Insurance companies rely on distribution channels, not only to distribute their products, but also to complete transactions. Insurance companies are not using innovative retail payment systems. This situation may change with the introduction of electronic money regulations, which will allow mobile payments. However, insurance companies are still not using the tools that are available under the current regulation, such as non-banking agents. They mostly use NBAs as payment platforms, not as transactional platforms. However, NBAs could be used as direct payment platforms, because they were recently authorized to sell microinsurance products. In addition, aggregators of NBAs could help NBAs participating in the microinsurance market to be more efficient and more profitable.

The strong dependence of insurance companies on distribution channels is weakening their ability to bargain with distribution channels, notably some MFIs. Distribution channels are charging very high fees for providing access to their clients. This situation could deter insurers from becoming involved in the market or increase distribution costs, which will be transferred to the client. Emphasizing the value attached to the selling process ensures profits for insurers and distribution channels, but fails to analyze product value from the consumer's perspective.

Shortcomings are evident in the technical knowledge of marketers (bancassurance, mass insurance, and microinsurance marketers). Insurance companies fail to provide their marketers with training and a supply of informational documents. Distribution channels need to receive training and awareness campaigns regarding the microinsurance products they distribute. This is essential at all levels, not only at the management level, and is a legal requirement. Some distribution channels said that they do not receive proper documentation that would make it easy for consumers to understand the products. However, COPEME and PROMUC have, at their own cost, gained insight into how insurance works and designed materials for consumers that explain the basics of microinsurance. In general, however, insurers are not providing good and innovative incentives to distribution channels.

Important distribution channels are still waiting to be explored. First, the workplace will become an increasingly important and appropriate channel for distributing insurance products to segments C, D, and E as the economy grows and more workers enter the formal sector. The importance of the workplace is related not only to mandatory insurance, but also to additional insurance products. Second, remittance companies are worth exploring. Peru is ranked seven in Latin America and the Caribbean in respect of remittances received in 2012 (US\$2,779 million). Third, segments C, D, and E use informal risk-coping mechanisms, such as saving clubs, and these could be used to distribute insurance products.⁷⁹ Insurance products could be promoted at community fundraising events. Fourth, instead of closing the door to members of UNICAs because they are in the informal sector, insurance companies could team up with them. Fifth, channels such as post offices, the Bank of the Nation, or NBAs are worth exploring.

Few insurance brokers are involved in distributing insurance products to segments C, D, and E, but there is growing interest in being part of the microinsurance value chain. Some brokers have shown an interest in adding value, either by helping to identify demand or by collaborating on product design and commercialization. Insurance brokers specialize in designing products and providing advice to distribution channels and consumers. The most important microinsurance market flaws are poor product design, lack of effective training, and deficiencies in disclosing terms and conditions of the contract adequately to consumers. Involving insurance brokers provides an opportunity to rectify these flaws. Even more so, some brokers in the Peruvian market are aware of the needs of segments C, D, and E. By using insurance brokers, insurance companies could lessen their dependence on existing distribution channels. Retailers that had started to distribute mass insurance products as marketers have created specialized insurance brokers. In addition, APECOSE has an insurance school (ESEG) that could help to fill in the gaps in the training of sales forces and microinsurance marketers.

⁷⁹ Recently, Nigeria recognized the importance of informal saving and risk-pooling mechanisms as distribution channels. Indeed, in the guidelines for microinsurance operators, the National Insurance Commission included "esusu" and "adashi groups," which are rotating savings and credit association, as distribution channels for microinsurance.

Few cooperatives participate as distribution channels. Peru has 165 cooperatives, serving a client base of around 1.1 million members, with the potential to distribute insurance products. However, they only distribute 5% of the products that we consider to be microinsurance. Community bonds are extremely important in Peru, and self-help groups are found in every sector and activity. Cooperatives could play a larger role here.

Lack of disaggregated data for the different regions is an important barrier for agricultural insurance. It is difficult to implement agricultural insurance because of the lack of information about weather and natural catastrophes and the large differences between regions, which have different microclimates.

In theory, insurers cannot require consumers to provide additional documents to enter into a contract; in practice, they do require additional documents. Sometimes segments C, D, and E do not have national identity cards, property deeds, or valuations of their property, and insurance companies are generally inflexible in such situations.

Insurance companies have a common strategy for developing microinsurance under the umbrella of APESEG. The development of self-regulation by APESEG has advanced the agenda on microinsurance and public-private dialogue (annex 7). APESEG, which has a microinsurance committee, has discussed with the SBS ways to develop the microinsurance market and has provided a draft of standardized clauses for life insurance. In addition, its proposed microinsurance information system has the potential to make an important contribution to development of the market, notably because APESEG has a broader concept of microinsurance than the SBS.

Credit-linked insurance products are the first insurance products that segments C, D, and E have access to, and their experience with this product will be decisive for any future purchases. Therefore, credit life insurance products that represent poor value for the consumer might cause a fatal loss of trust among consumers. This “poor value” could be the result of poor design, poor disclosure of the existence of the product or of the principal rights and obligations of the insured party or beneficiary, the conditions for using it and the added benefits, the lack of clarity about its mandatory nature, abusive practices, misselling, untimely delays in claims handling, and more. Almost all MFIs offer some form of credit life insurance. The challenge is to make these products more attractive to clients by providing extra benefits. Products distributed by NGOs, such as Prisma, Finca, and Promujer, or by commercial banks, such as MiBanco, have done this. Credit-linked insurance is a platform for launching more sophisticated microinsurance products. The SBS and insurance companies agree that credit life insurance should not be registered as microinsurance. Indeed, only two credit life insurance products are registered in that way.

Is the increase in credit and credit life insurance a “virtuous” or a “vicious” cycle? Insurance may spur lending; however, a deeper analysis of the relationship between more credit and credit life insurance is necessary in order to answer this question.

Is the SOAT another anchor insurance product? The SOAT is well known to segments C and D. However, according to the demand-side studies, their experience with this mandatory insurance is neutral. There is room to use the SOAT to create awareness on risk management through insurance.

Public-private partnerships have proven to be effective in the design and encouragement of agricultural insurance. The Peruvian government’s commitment goes beyond the adoption of a suitable regulatory framework for the development of microinsurance. The government has teamed up with the private sector in order to provide catastrophic agricultural insurance, covering 130,500 small-scale farmers in Peru. The government subsidizes the product, and insurance companies act as the risk carrier.

Supervision

Overwhelmingly, segments C and D are not aware that the SBS supervises insurers, and even those who are aware do not trust insurers. Public institutions are generally distrusted in Peru, and the SBS, a public institution, is tarred with the same brush.

Microinsurance has tight deadlines for paying claims and handling complaints, but the requirements are not enforced; in particular, there is no specific monitoring of compliance with the relevant deadlines. The SBS monitors compliance with these deadlines by verifying that the clause is included in the contract and notifying the counterparty of the deadline, but it does not collect or publish accurate information about claims payouts. The indicator for average period for claims payouts does not provide this information. Insurers prefer not to register products as microinsurance is that they want to avoid the 10-day claims payout requirement. What is achieved by having such tight deadlines if compliance is not effectively monitored or enforced and if an alternative regime applies more flexible deadlines (30 days)? This situation gives rise to regulatory arbitrage, as insurers choose the most favorable regime.

The internal complaints-handling deadline (set out in Microinsurance Resolution 2009) is not enforced either. Indeed, no indicators or statistics are publicly available regarding the actual period of time that elapses regarding the internal handling of complaints or how they were resolved. The same applies for external complaints-handling mechanisms.

If information about complaints and claims were more transparent and publicly available, consumers could make more informed decisions. The SBS does not currently publish statistics on the complaints against insurance companies that have been filed with it. Nor does it publish statistics on internal complaints that have been filed with insurance companies. Consumers do not have the tools to decide which insurers, or which products, are “better than the others.” This weakens the effectiveness of the microinsurance market, as competition, market, and product development are not encouraged through informed consumer choice.

Not all distribution channels that could play a role in microinsurance are supervised by the SBS; some channels such as utility companies, cooperatives, and pharmacies, among others, are supervised by other entities. This ensures a certain level of oversight. However, the conditions and benchmarks differ a lot. The failure of the SBS to connect effectively with other supervisory authorities could create confusion, and consumers will be the first to be affected.

Regulation

Many regulations are applicable to microinsurance in Peru, and the regulatory framework applicable to microinsurance is confusing. Practitioners are frustrated about the volume of insurance regulations currently in force and those that are still being issued. The extent to which the New Insurance Contract Law and its regulations apply to microinsurance is not entirely clear. Complying with these regulations (in addition to the Microinsurance Regulation) could place additional burdens on insurance companies.

There is no special regime for SBS-registered microinsurance products. Microinsurance Regulation 2009 does not provide a special regime for registering microinsurance products with the SBS, such as “fast-track” registration, which could be a file-and-use registration system with a simple checklist for verification. Various products go through the same processes that are applicable to conventional and mass insurance products, which the insurance companies consider to be long, expensive, and complicated.

There is no special sanction regime for microinsurance products. Insurance companies that do not comply with claims payout and complaints-handling deadlines are subject to the same penalties for noncompliance as companies offering conventional and mass insurance.

The regulations in Peru place particular emphasis on ensuring that consumers make informed decisions about insurance products and are treated fairly. To this end, the regulations include the following measures. First, the regulations set out clear rules that apply before entering into, and during the performance of, the contract, which aim to ensure that consumers provide free, prior, and informed consent. Insurers and their distribution channels must provide appropriate and transparent information in a timely manner so that consumers know what they are acquiring and that they can effectively use it. However, importance is placed on the written disclosure of information, creating a huge amount of documents. The regulatory framework advocates simplifying documents for microinsurance by allowing the use of shorter, clearer policy documents and for all insurance products by allowing the use of summary covers. Insurance companies suggest that such documents need to be made simpler still and adapted further to the target population. The regulatory framework now allows the provision of consent not only in writing, but also by electronic signature. If it is not possible to obtain the consumer's signature, insurance companies are allowed to prove that there was a request for insurance. The Microinsurance Resolution gives a broad remit for proving consent; conventional insurance is much more restricted.

Second, the regulations impose tight market conduct rules, which ban abusive clauses and practices, require the training of marketers, and clarify insurance companies' liability for any wrongdoing suffered by consumers. The training requirements in respect of microinsurance marketers, bancassurance marketers, and mass insurance marketers are not overly restrictive. Although the training requirements for bancassurance and mass insurance marketers are more restrictive than those for microinsurance marketers, the first two distribution channels are still the market's preferred choice.

Microinsurance marketers have to comply with fewer requirements than marketers and bancassurance marketers, but insurers frequently overlook this incentive. Complying with fewer requirements is not seen as an incentive for getting involved in microinsurance. Moreover, insurance companies still prefer to obtain authorization to use mass marketers, even though doing so is more time-consuming and entails additional requirements. The barriers of exclusions and deadlines under Microinsurance Resolution 2009 are more powerful deterrents than the flexibility afforded to microinsurance marketers.

"Special offices" could play an important role in microinsurance, but insurance companies cannot use them. The regulations do not allow insurance companies to use special offices, which can be mobile, fixed, permanent, or temporary. This ban makes it even more difficult to reach consumers in isolated areas and spread awareness about insurance companies.

7. Recommendations

In this section, we offer recommendations organized according to the barriers they aim to overcome or the goals they seek to achieve. For this purpose, we have classified our recommendations into five categories: (1) those that increase the registration of insurance products as microinsurance with the SBS; (2) those that improve the distribution of microinsurance; (3) those that improve the offer of insurance products to segments C, D, and E with added client value; (4) those that improve demand; and (5) those that encourage a more transparent, efficient, and responsible microinsurance market. In each case, we indicate who is responsible for implementing the recommendation.

Increasing the registration of products as microinsurance

Microinsurance in Peru includes more products than are registered as microinsurance with the SBS. Therefore, our recommendations cover all insurance products that could be accessed by segments C, D, and E, not just those that are registered as microinsurance with the SBS. We strongly encourage continuing to register microinsurance products under Microinsurance Regulation 2009. This process will encourage the development of insurance products specifically targeted to persons who are unserved and underserved by insurance products—namely, segments C and D and, in the future, segment E. In addition, providers, including distribution channels, will have a clearer understanding of the regulatory framework applicable to the products they are distributing as “microinsurance.”

The microinsurance regulation raised awareness about how microinsurance differs from both mass and conventional insurance, introducing the idea of promoting access to insurance to the underserved and unserved under appropriate market conduct rules. It also introduced measures to improve market conduct rules, which are essential to enhancing trust in insurance companies among segments C, D, and E and raising awareness of insurance. If further refined, it could continue to catalyze the development of insurance for the low-income population. Some aspects (such as the simplicity of contractual documents with certain modifications) and tight deadlines (applicable to claims processing and complaints handling) clearly must be retained and, even more important, enforced. Nevertheless, other aspects of the regulation should be revisited based on the experience to date. In addition, registering insurance products targeted to segments C, D, and E under this umbrella should be made more attractive to insurance companies.

We therefore recommend modifying the current Microinsurance Resolution in the following ways.

Concretize the definition of microinsurance. Adopting a more concrete definition of microinsurance is important for our proposed regime, which is more comprehensive and entails specific provisions applicable only to SBS-registered microinsurance products. We do not recommend returning to a quantitative definition, as doing so would restrict the evolution of the market and limit innovation among insurance companies.

We suggest adopting an approach where insurers assess on a case by case basis whether a particular product is microinsurance or not. To do so, they would consider the following guidelines: the product must be (i) targeted at the low-income population, (ii) affordable, and (iii) accessible to that population. They must prove that the product is available to (i) persons in segments C, D, or E, (ii) those that could be categorized as low-income people generally, or (iii) those living in rural areas. Insurance companies could determine that a particular insurance product is targeting the low-income population based on the nature of the distribution channel and its penetration among the low-income population.⁸⁰ Insurers would have to record the assessment that they have made against the criteria, indicate the basis on which they have

⁸⁰ This is similar to an approach that has been adopted in Ghana, where the National Insurance Commission recently approved the Microinsurance Market Rules.

made the determination, and explain how the insurance contract meets those criteria. When the insurer registers the product, it would have to provide the SBS with a copy of this assessment.

Build a stronger case for the microinsurance marketer by highlighting its comparative benefits. The microinsurance marketer is subject to fewer requirements than marketers and bancassurance marketers, and this aspect should be emphasized and “sold” as an incentive. Notably, it is useful to highlight that there are more opportunities for using a wider range of entities (including trade, social, and community associations and even natural persons) as microinsurance marketers.

Take advantage of community bonds in rural and urban areas in order to distribute insurance products. The SBS should consider permitting “microinsurance correspondents” to facilitate the ability of associations and groups (which do not have “commercial establishments” as required for microinsurance marketers) to act as policyholders of microinsurance products for their group. This could provide a regulatory window for savings groups, self-help, groups, and UNICAs. In any event, under the current regulation on group insurance, we advise insurance companies to approach these informal risk-pooling schemes and to team up with associations that represent them as policyholders.

Encourage the use of insurance promoters for the distribution of microinsurance products. To make their use more appropriate for microinsurance, we suggest creating a particular training certification for microinsurance promoters. This would be more flexible than the training requirements currently applicable to insurance promoters.

Expressly include in the regulation that NBAs can sell insurance products. Even though the regulations already allow this possibility, it is important to include this provision in a comprehensive manner.

Encourage microinsurance by speeding up the product registration process and reducing administrative costs. The approval of certain insurance products, such as mass, personal, and mandatory insurance, has been required since 2013; for this reason, we advise highlighting the comparative advantage of registering insurance products as microinsurance with the SBS, which does not require prior approval. To speed up the registration of microinsurance products in Peru, we suggest implementing a fast-track “check-list approval process” for microinsurance products. This process would use standardized clauses previously approved by the SBS and the Microinsurance Committee of APESEG and would require a prior assessment of whether or not the product constitutes microinsurance.

Analyze (with industry input) the main features that are considered to be onerous under the New Insurance Contract Law and its regulations, in order to identify competitive advantages that can be highlighted by the regime of microinsurance in Peru. Certain provisions of this law and its regulation are more beneficial to the consumer than certain provisions of the Microinsurance Resolution. It is less onerous for insurance companies to comply with the Microinsurance Resolution than with the Insurance Contract Law. Therefore, the SBS and the industry need to identify the specific advantages of registering under the Microinsurance Resolution.

Improve consumer protection by encouraging the insurance industry to self-regulate. APESEG plays an important role in this regard (annex 7), and the potential of self-regulation is untapped. APESEG has already presented a draft standardization of clauses for life microinsurance products. The agenda on this should be advanced in the following areas: the standardization of key clauses, the identification of abusive clauses (the Insurance Ombudsman could help the SBS to identify abusive clauses and practices), the analysis of appropriate deadlines for consumers to comply with their obligations (such as notification of the loss), and compilation of a list of prohibited expressions or wording (which are difficult for consumers to understand). It is advisable to team up with associations such as COPEME, PROMUC, FANACREP, and ASOMIF to get the perspective of both consumers and distribution channels alike. The SBS should explore the possibility of integrating a one-page document into policies that uses infographics to explain the rights and obligations of

policyholders and insured parties, the deadlines for complying with their obligations, and the mechanisms for handling claims and resolving disputes.

We encourage the use of “insurance membership cards,” including basic information on the product, such as the name of the insurance company (with a logo), name of the policyholder or insured party (if possible), name of the beneficiaries (if applicable), policy reference, type of insurance, and website and consumer care hotline service of the insurer and the SBS. We advise involving reinsurers in this process.

Self-regulation should also tackle the issues of “nonexclusions” or “minimal exclusions” and deadlines for handling payouts and complaints. It should provide clearer criteria, such as (i) a list of minimal exclusions for each microinsurance product, through a concerted dialogue between the SBS and APESEG, and (ii) a guideline of good practices on payouts and complaints-handling deadlines. In a process of standardizing clauses, the SBS could approve certain minimum conditions, prohibitions would no longer be necessary, and simple tailor-made products could be designed for segments C, D, and E. The SBS’s endorsement of a code of conduct of good practices in the provision of microinsurance could address all of these issues.

If clauses were approved and standardized and if self-regulation were enhanced (by insurance companies under the guidance of APESEG), it would be possible to ensure that exclusions are reasonable and appropriate according to the covered risks and therefore to abrogate the “no-exclusions rule.” Given APESEG’s recent attempts at self-regulation, the SBS should also get involved, by encouraging companies to identify confusing terms, abusive clauses, and abusive exclusions, draft standardized and minimum clauses, and adopt codes of conduct. When insurance companies include exclusions in contracts, they do so for two reasons: to avoid adverse selection and moral hazard and to ensure that reinsurers take on the risk. Therefore, it is advisable to include reinsurance companies in the debate.

Ensure that products are simple, using the characteristics of mass insurance and microinsurance products as a model. The simplicity of a policy is a result of the simplicity of the product. It is not possible to have a simple insurance policy if the underlying product is complicated. Overly complicated products could be oversimplified, and key terms and conditions could be omitted or be too complicated for consumers to understand. The task is to simplify products first and then to simplify policies.

The “summary of the cover” (mass insurance and conventional insurance) seems more appropriate and complete than simplified policies (microinsurance) in terms of the information to be provided. Making microinsurance policies and certificates similar to summary covers would guarantee that consumers (i) provide informed consent, (ii) are aware of the mechanisms to use products effectively, their rights and obligations, and the deadlines for exercising them, (iii) are able to make complaints, and (iv) act appropriately in the event of a dispute. We suggest updating the requirements in relation to this line of simplified policies and certificates.

Decrease regulatory arbitrage by enforcing regulations in mass insurance. To encourage insurance companies and distribution channels to register their products as microinsurance, while effectively protecting microinsurance consumers and avoiding regulatory arbitrage, certain amendments to mass insurance and other regulations are required (insofar as they relate to microinsurance). Notable are those that relate to the adoption of claims payout and complaints-handling deadlines. Given the difficulties in applying similar deadlines to mass insurance, we suggest that the SBS enforce the applicable deadlines for handling payouts and complaints in mass, conventional, and microinsurance, for instance, by adopting performance indicators measuring the promptness of settling claims and handling complaints. The results should be transparent, easy to understand, and available to the public. Making statistics on the deadlines for paying claims and handling complaints publicly available would improve the enforcement of deadlines. Doing so would also help consumers to make more informed decisions.

Create a “microinsurance brand” that is identified by a logo and a quality stamp, tied to performance indicators for microinsurance providers. The SBS could develop a differentiated brand such as

“Microinsurance Peru” to give a noneconomic incentive to insurance companies and distribution channels and to suggest quality and reliability in a way that the low-income segment would understand. The SBS could provide an award for microinsurance products or channels. The logo could be part of a marketing campaign, along the lines of “SBS-approved microinsurance,” linking the idea of an insurance product with a “quality guarantee” and clarifying the role of the SBS in the minds of consumers.⁸¹ This could help to raise the SBS’s profile among consumers and, at the same time, ensure that the stamped products offer value for the consumer. We also suggest adopting performance indicators for providers of microinsurance, measuring efficiency, good governance, product value for the consumer, and growth, among others.⁸² In this way, a branding scheme would reward good practice by insurers, encourage the offer of products with more value for consumers, and increase transparency and competition. Insurers can be expected to improve products and services as they vie for the “best in the class” award.⁸³

Devise a special sanction regime for failure to comply with payout deadlines in microinsurance, balanced with sanctions in other areas of insurance. We advise devising a specific regime of sanctions for microinsurance products. Longer deadlines for the payment of compensation with a possible extension of up to 20 days could be accepted if the payment has to be made to an isolated or remote area (or the legislation could provide for such an extension in advance). In addition, insurance companies should strengthen their relationships with their distribution channels in order to ensure that the consumer does not suffer the consequences of lack of compliance by distribution channel staff. In this context, training and incentives for the staff of distribution channels could entail appropriate claims-handling practices. We also suggest using funds from the fines imposed on insurance companies in microinsurance to promote consumer protection. For instance, the SBS could require that fines be deposited into a fund that supports financial literacy or the activities of the Insurance Ombudsman in remote areas.

Improving the distribution of microinsurance

In practice, MFIs dominate distribution. To foster other alternatives, reduce overuse, and give insurance companies more bargaining power, insurance companies should have—and make use of—more choice. This would also reduce the likelihood that certain distribution channels would earn excessive commissions. We recommend the following.

Revamp direct selling and encourage insurance companies to use it more effectively. Insurers might consider using all types of “offices” that they are entitled to use (especially shared offices). In addition, they should use sales points and distance selling appropriately. Insurers should invest in and use insurance promoters or “microinsurance promoters” because they are subject to fewer requirements than bancassurance marketers. Even though the initial investment could be substantial, they should consider whether the initial cost is higher than the excessive commissions they are currently paying (especially over the long term).

Support direct selling in remote areas that are difficult to access, for example, by allowing insurance companies to use “special offices.” Special offices can be mobile, fixed, permanent, or temporary and be recognized as part of the company’s “offices” for purposes of the regulation. The regulations prevent insurance companies from using mobile offices. We advise the SBS to reconsider this, as using mobile offices would help to increase the penetration of insurance in remote areas.

Make the most of NBAs and e-money. Making the most of these transactional platforms would help insurance companies to increase penetration in remote areas and unlock retail payment systems and transactional platforms, which are generally offered by distribution channels. The regulations allow

⁸¹ The logo strategy is currently used in the Philippines and Ghana.

⁸² In January 2011 the Insurance Commission of the Philippines adopted performance standards for microinsurance, allowing it to assess solvency and stability, efficiency, governance, understanding of the product by the client, risk-based capital, and outreach.

⁸³ A similar scheme is run in the United Kingdom for conventional insurance by “Which?,” an independent consumers’ association.

insurance companies to use NBAs as a transactional platform, and the proposed SBS regulation on e-money would allow “companies issuing electronic money” to enter into agreements with NBAs. The regulation also creates an “aggregator of banking agents,” which could be used as a distribution channel.

Tie commissions to renewal indicators, claims ratios, and consumer satisfaction surveys. Charging commissions according to the type of service provided would allow the monitoring of possible misselling and link “expensive commissions” with “good service.” We do not recommend that the SBS regulate this area. However, the SBS could ensure more transparency and help consumers to understand product value by monitoring certain indicators. This issue should generally be left to self-regulation and market practice. However, consumers rely heavily on the information transmitted by distribution channels—not just in the contractual documents—and judge their experience with insurance by their relationship with the distribution channel. Therefore, more attention needs to be paid to fostering good practices among distribution channels in the provision of transparent information and fair treatment of consumers. The role of the SBS still needs to be carved out in more detail.

Encourage insurance brokers to participate in the microinsurance value chain. Limited use of brokers leaves an important potential idle, as brokers traditionally contribute to market development by way of product design, market studies, and consumer advice. Brokers have been engaged in microinsurance already. Their participation could be encouraged by reducing the requirements placed on marketers if an insurance broker is involved. In addition, the SBS should consider reducing the prudential requirements for cooperatives that are willing to create insurance brokers offering their services to the cooperative sector.

Improving the offer of products

A business case can be made for providing products with added value and applying transparent procedures, as doing so increases consumer trust and the take-up of microinsurance products. This set of recommendations is generally aimed at encouraging insurers to improve their practices and to offer more attractive products, tapping the needs of their clients.

Target group orientation and innovation to improve the product portfolio. The Peruvian insurance market still relies heavily on credit life policies. The target market for microinsurance has very limited access to products that cover their real needs and risks. Therefore, more insurers should team up with distribution channels and insurance brokers to design products that are needed, including basic products with added value, products with tangible benefits, and bundled products. Consumers’ experience with the protecta card, which provides discounts for a national network of products and services, and products linked to savings components are good examples of how to improve the product portfolio. Credit life plus, distributed by Prisma, is a product with high client value, as compensation goes not only to the lender but also to the client’s family in case of death. Loyalty reward schemes have also been well received in some countries. Insurance companies often worry about a high claims ratio, but the opposite should also be a source of concern. Products with a low claims ratio often have low value for consumers, which can affect the sustainability of the scheme and hurt the reputation of the insurer.

Do not neglect credit life. Credit life is the anchor product and must be boosted. Consumers’ experience with credit life insurance is often their “first date” with insurance. Therefore, offering additional benefits, treating consumers fairly, disclosing information appropriately, and publishing disaggregated statistics on claims and complaints about such products should be encouraged.

Encourage public-private partnerships to boost health insurance and other insurance products where the state could be involved. In particular, we suggest encouraging products that are needed by segments C and D and that will help the state to comply with its national, international, and regional commitments. This could be done through subsidies but also by allowing insurance companies to participate in social programs, such as cash transfer programs, social housing, and microenterprise programs.

Encourage dialogue between the SBS, COPEME, ASOMIF, PROMUC, and APESEG in order to understand the needs of the target market, design appropriate products, and identify tangible benefits. These associations have sought to advance the agenda on microinsurance, and it is important to involve APESEG in this dialogue so that MFIs in categories 3 and 4 can move to categories 1 and 2.

Improving demand and take-up

Offering good-value products to consumers is the best way to improve demand and spur take-up of insurance. Positive experiences with insurance products motivate consumers to consume more. In this respect, we present the following recommendations.

Discuss the possibility of adopting mandatory insurance products. We recommend that the government discuss the possibility of making earthquake insurance mandatory, notably, for state-funded housing. Consumers in segments C, D, and E are fearful of earthquakes and consider them very likely to occur.

Incentivize the take-up of insurance products via government programs that aim to increase economic productivity and fight poverty. We recommend that the government highlight the importance of managing risk through insurance products in programs that promote microenterprise, such as CRECEMYPE of the Ministry of Production, and in cash transfer programs such as Juntos.

Create awareness not only about insurance but also about risk management strategies in broader terms. As noted in the IMASEN and Datum studies, segments C and D know that some risks need to be managed (they mainly call risks “unforeseen events”). People see the need to manage risks, but they generally manage them without recourse to insurance. They need to know more about how insurance can help them to manage risks. The public sector in Peru is committed to improving access to insurance and has taken important steps in the policy and regulatory framework. Public and private strategies that aim to increase awareness of the importance of risk management have had some impact. Financial education strategies could be complemented with clear information related to the occurrence of risks and the benefits of insurance. Indeed, exposure to insurance products is the best tool for learning about insurance and the importance of adopting risk management strategies. Publicizing the payout on claims across all types of insurance products and doing so through a wide array of nonfinancial entities (radio, trade unions) with links to segments C and D would help to promote the benefits of risk management and insurance.

Offer temporary cross-subsidized products for certain regions and target markets. Replicating experiences like FOGASA (a public-private partnership) could promote the development of the microinsurance market in urban and less developed areas of the country and assist the development of a broad portfolio of microinsurance products that focuses on the real needs of the target population (that is, crop insurance, natural disaster insurance, health insurance).

Distinguish public health schemes from private insurance. If people do not generally trust public organizations and are not generally satisfied with the public health care system and infrastructure, there is a pressing need to present private insurance as something completely unrelated to public health systems or to cash transfer programs. The best way to do so is to build trust by providing good products and efficient services in the context of private insurance.

Measure impact and monitor financial education strategies. Financial literacy rates are generally low in the country, and financial education programs (such as the one the SBS has had in place for quite a long time) are important; however, their impact needs to be monitored so as to adjust the content and tools and to determine which approaches are most efficient. The approach of the MIDIS (which implements financial education strategies only after piloting the strategy and measuring its impact) should be encouraged. We also advise teaming up with other supervisors in the region, industry associations, and other practitioners

specialized in financial education who are involved in advancing the agenda on financial education on risk management and insurance.

Use young people to promote insurance, which would provide work and create a culture of insurance. It is important to design attractive products (with tangible benefits) to educate the younger generation on the value of, and need for, insurance. This could be done by offering insurance education in schools or communities or by recruiting young people to be insurance promoters. First, they would be trained, and then they would spread the word about insurance to their friends, relatives, and peers. Consumers strongly value community bonds, and insurance promoters could be part of this community. In addition, young people could break down the barriers surrounding the provision of insurance through mobile phones and the Internet.

Encouraging a more efficient and responsible microinsurance market

To ensure that the microinsurance market continues to develop in the most efficient and responsible manner, we propose the following.

Address the dominant position held by certain distribution channels. The most appropriate measure is to incentivize the use of direct selling through innovative mechanisms and to encourage the use of a variety of distribution channels and other retail payment systems. The following tools would help to address this important need:

- Require the disclosure of the distribution channel's commission in the insurance contract. This requirement is addressed in the New Insurance Contract Law, but its impact may be very limited because the low-income target market rarely reads the policies or knows how to construe this information.
- Make distribution channels aware that offering insurance products with good client value would benefit their business, as consumers could choose another MFI based on the insurance products it offers. This is indeed starting to happen in El Salvador.
- Publicize the reputational benefits to be gained from distributing microinsurance products. Distribution channels that are part of international conglomerates, such as AON or Marsh, consider corporate social responsibility (and their transnational public reputation) to be key. There are reputational benefits to be gained from distributing microinsurance products. Conversely, providing clients with poor-value products would negatively affect the "brand" of insurers.

Increase the quantity and improve the quality of training and implement incentives for distribution channels. The SBS is aware that it cannot regulate and supervise all distribution channels by following their operations until the end of the value chain. It is necessary to continue strengthening its ties with insurance companies and to delegate responsibility to them. Insurers should improve their training of distribution channels with regard to microinsurance. Such training should be provided to frontline staff, managers, and operational departments. Although insurance companies have an obligation to provide such training, a low level of microinsurance knowledge persists. Increasing and improving training, while considering the implementation of appropriate incentives, such as giving the relevant insurance product to frontline staff for free and clearly explaining the benefits and applicable procedures, would help them to avoid mistakes (and the negative consequences for consumers) and would make channels more profitable, as renewal rates are likely to rise as a result of positive consumer experiences.

Encourage insurance companies to adopt internal mechanisms for monitoring distribution channels and avoiding misselling. For instance, this effort could take the form of compiling a blacklist of marketers and insurance promoters that is kept by APESEG,⁸⁴ linking commissions or contract renewal to their

⁸⁴ Such as they have in Vietnam.

performance,⁸⁵ or implementing cross-selling calls to policyholders or insured parties after the insurance product is sold.

Encourage setting minimal conditions for certain clauses in mass, personal, and mandatory insurance, as doing so could help to standardize problematic clauses. This suggestion assumes that the approval process will take the form of a “check-list” process, where the policy will be checked to see if it has the required standard clauses and the minimum number of conditions approved by the SBS.

Strengthen dialogue and cooperation between supervisors and other agencies providing oversight to participants in the microinsurance value chain that are not supervised by the SBS. Supervisors should discuss their respective obligations in relation to the insurance market. They should discuss the remit of their authority and the products and providers that fall within and outside it. This would clarify the responsibilities of all parties involved, identify regulatory gaps in product or provider cover, support suitable lobbying for legislative change, and identify market inefficiencies or regulatory arbitrage.

Implement mechanisms to measure access to insurance among the underserved and the unserved. Data showing the access of segments C, D, and E to insurance are still scarce. Without such data, it is difficult to formulate and implement clear strategies. The public and private sectors should team up to address this. The APESEG initiative to create an information system on microinsurance is a first step, but the SBS should make its own data available.

Create awareness of and facilitate access to complaints-handling and dispute resolution mechanisms. The New Insurance Contract Law and its regulations provide that information about complaints-handling and dispute resolution mechanisms must be disclosed during the term of the contract. Nevertheless, segments C and D are not aware of these mechanisms and do not have access to them. Therefore, the SBS and other entities (such as the People’s Ombudsman and consumer associations) should provide information to the public about the available options and how to access them. In addition, the SBS needs to ensure that complaints-handling and dispute resolution mechanisms are accessible to segments C, D, and E.

Improve transparency on claims and complaints. The SBS publishes statistics on compliance with the deadlines for paying claims, but this is done in the performance indicator reports of the insurance sector, and the information is difficult for consumers to access and understand. The SBS does not publish statistics about complaints. We advise the SBS to gather, analyze, and create statistics on the handling of complaints at both an internal and an external level. We advise requiring companies to submit statistics on their handling of complaints, which can be analyzed and published. Furthermore, we encourage the publication of data on the compliance of insurance companies with applicable deadlines for claims payouts and complaints handling for all types of insurance products. The SBS receives complaints regarding disputes between users of the financial system and supervised entities and has created a direct channel with the INDECOPI in order to communicate these complaints. The SBS should provide guidelines to ensure and facilitate the publication of statistics on dispute resolution by the Insurance Ombudsman in order to identify the causes of conflict, the insurance companies involved, and the decisions taken for or against the consumer. It should also provide specific statistics on microinsurance. Even though the Insurance Ombudsman’s annual report contains some of this information, it does not reveal the names of the relevant insurance companies.

Assess whether segments C, D, and E can complain effectively and whether they have access to dispute resolution mechanisms. Having a broad choice of dispute resolution mechanisms can be advantageous, but only if such mechanisms can be accessed without exhausting multiple mechanisms beforehand. We suggest requiring consumers to exhaust the internal complaints-handling mechanisms of the relevant insurance company before they can use external mechanisms for filing a complaint and resolving a dispute. Beyond that, consumers could choose to litigate their dispute pursuant to any available external dispute resolution mechanisms. However, consumers need to be aware of the consequences of choosing one or another

⁸⁵ This currently happens in India.

option. In other words, they need to understand the binding nature of the decision and the scope for further recourse or appeal. Limited “forum shopping” could be encouraged, but the forums need to be appropriate. Emphasis should be placed on understanding the specific characteristics (financial culture, geographic access, affordability, social exclusion) of segments C, D, and E and on encouraging choice for microinsurance consumers. The main constraint with the INDECOPI is the fee that must be paid in order to access it. We advise waiving this fee in some circumstances (for example, for small claims). Online dispute resolution mechanisms, based on information and communication technology, such as mobile offices or other tools, should also be explored in order to increase the presence of the Insurance Ombudsman in rural or isolated areas.

In respect of concerns about potential conflicts of interest, we suggest that the SBS adopt conflict resolution rules similar to those adopted by the Insurance Ombudsman. This would increase consumer confidence in the Insurance Ombudsman and weaken concerns about potential conflicts of interest. The workload of the Insurance Ombudsman will likely increase with the recent regulatory changes; therefore, options to finance this heavier workload should be explored jointly by insurers and the SBS. To do so, the SBS should explore alternatives involving other government institutions and to consider revamping the Insurance Ombudsman in order to ensure effective access to justice. The SBS should explore ways to comply with its obligation (provided in the New Insurance Contract Law) to promote the interests of insurance consumers via the Insurance Ombudsman. To do this, amendments and additional investment are required.

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Annex 1. Government social programs

Government scheme	Eligibility	Benefits	Cost	Processes	Beneficiaries or members
	Households living in priority conditions of poverty, living in rural areas of Peru, composed of pregnant women, children, teenagers, or youngsters (until they finish secondary education or turn 19). About 95% of beneficiaries are engaged in agriculture in rural areas	The household receives S/. 100 (US\$35) monthly (since December 2009, they receive S/. 200 (US\$70) every two months) for four years. Unlike other cash transfer programs the benefit does not depend on the number of children	Fully subsidized; managed by the MIDIS	The selection of beneficiary households consists of three stages: select eligible districts, select eligible households in eligible districts, and validate eligible households at the community level, finalizing the list of beneficiaries	As of March 2013, 703,125 households had registered for the program, and 682,406 had received cash transfers (covering 1,594,373 children and young people up to 19 years of age and 21,164 pregnant women)
	Children under 3 years of age in areas of poverty and extreme poverty	Assists children to bridge the gaps in their cognitive, social, physical, and emotional development. Types of intervention: a) Day care service b) Family accompaniment service (family or group meetings to improve their knowledge of childcare and education)	Fully subsidized; managed by the MIDIS	Working through management committees, which are composed of members of the community, the program equips or creates Integrated Child Care Centers to assist the local population and works with volunteers to care for children	380 districts in areas of poverty and extreme poverty at the national level. Target in 2013: to assist 118,000 children under 3 years old
	Beneficiaries must 1) Be 65 years old or more 2) Hold a valid identification and address 3) Live in extreme poverty 4) Not receive a pension or be enrolled in EsSalud 5) Not belong to any social program, with the exception of SIS, Juntos, National Food Assistance Program, Literacy Program, and Reparation Program	S./ 125 per month (US\$44.81)	Fully subsidized; managed by the MIDIS	Potential recipients are identified in districts whose poverty level is above 50% according to INEI's 2009 Poverty Map. The payment model is defined, and a bank account is set up for new users at the National Bank (Banco de la Nación)	247,000 adults in 2012; expected to reach 290,000 in 2013

Government scheme	Eligibility	Benefits	Cost	Processes	Beneficiaries or members
 FONCODES	Those in extreme poverty in targeted poor rural districts	The Cooperation Fund for Social Development (Foncodes). Generates sustainable economic opportunity for extremely poor rural households, facilitates coordination with the private sector for satisfying the demand for and supply of required goods and services. Components: 1) Productive development 2) Capacity building 3) Social Infrastructure 4) Territorial coordination	Fully subsidized; managed by the MIDIS	Services and products are developed in rural areas, considering whether: 1) Projects are linked to a specific funding line 2) Projects are promoted by users of relief programs 3) Users are committed to participate in the process 4) The executive nucleus is appointed by the General Assembly and the community attorney is appointed by the municipality.	As of December 2011, Foncodes had invested about S./ 6,500 million (US\$2,330 million), financing 56,800 projects—in particular, projects that focus on social and productive infrastructure
 QaliWarma	Children enrolled in public educational institutions in Peru	Food component: provides resources for quality food service tailored to local consumption habits and good nutritional ingredients. Educational component: promotes better eating habits among children and their families	Fully subsidized; managed by the MIDIS	Students enrolled in public schools	Approximately 2.7 million children in more than 47,000 public educational institutions nationwide. Target: to treat more than 3.8 million children in preschool and primary public schools in Peru by 2016
 VASO DE LECHE	Priority: children, 0–6 years old and pregnant women (with those who are malnourished or have tuberculosis being the top priority)	Provides a daily ration of food to those considered vulnerable to help them to overcome food insecurity	Fully subsidized; managed by the Ministry of Women and Social Development (MIMDES) and municipalities	Priority target population is identified by the municipalities	800,000 children received services in 2013

Annex 2. List of interviews

Insurance companies

La Positiva
Protecta
Rimac
Mapfre Peru
Sura

Brokers

Consejeros
Secura Grupo ACP
Marsh Peru
Serviperu

Reinsurers

QBE del Istmo Corredores de Reaseguros S.A.C.

Microfinance institutions

Edyficar
MiBanco
Finca Peru
Prisma NGO

Prisma's clients

Prisma NGO

Peruvian government entities

Superintendencia de Banca, Seguros y AFP del Perú (SBS)
OSIPTEL
Ministry of Agriculture and Irrigation (MINAGRI)
Ministry of Economy and Finance (MEF)
Ministry of Development and Social Inclusion (MIDIS)
Banco de la Nación (National Bank)

Private institution

Asociación Peruana de Empresa de Seguros (APESEG), Microinsurance Committee
Asociación Peruana de Corredores de Seguros (APECOSE)
Defensoria del Asegurado (DEFASEG)
Asociación Peruana de los Derechos del Seguro (Peruvian Association for Insurance Rights)
Asociación de Instituciones de Microfinanzas (ASOMIF)
Instituto del Peru, San Martin de Porres University
Datum Peru
COPEME–Microfinanzas
FENACREP (National Federation of Cooperatives of Peru)

Alternative channels

Hermes Security Company (Multifácil)
Scotiabank Peru/Crediscotia, E Money Project
Jet Peru Remittances and Money Exchange Operator





Annex 3. Insurance products offered to segments C and D in Peru





Insurer	Distribution channel and transactional platform	Covered risks	Description	Average premium	Benefit
“Microinsurance” products registered as such with the SBS⁸⁶					
Ace	MFI (Crediscotia)	Natural and accidental death and sudden familial abandonment	<i>Vida sepelio</i> : group insurance	Plan 1. US\$36 per year; Plan 2: US\$65 per year (also covers the spouse) US\$18 per year	Plan 1: Death (natural and accidental): US\$2,500 per accidental death in public transport; US\$5,000 per sudden familial abandonment
La Positiva	Direct selling and brokers	Accidental death, total and permanent disability	<i>Microseguro rapiseguro accidentes plus</i> : group insurance		Accidental death, permanent disability for accident: US\$7,000 per death caused by a traffic accident; US\$14,000 per permanent disability caused by a traffic accident
		Diagnosis of cancer	<i>Rapiseguro indemnización cáncer</i> : group insurance. Lump-sum compensation depending on when the cancer was diagnosed		In the first year, US\$1,000; in the second year and onward, US\$2,800
		Diagnosis of a grave illness	<i>Rapiseguro indemnización enfermedades graves</i> : group insurance. Compensation in the case of diagnosis of a serious illness		In the first year, US\$500; in the second year, US\$1,600
		Daily payment in case of hospitalization caused by accident	<i>Rapiseguro hospitalización por accidente</i> : group insurance		US\$26 per day up to 365 days
Pacífico	Utility company EDELNOR, (electricity)	Personal accidents, permanent disability, theft of the electricity meter (twice per year)	<i>Más por tu familia</i> : group insurance. Covers policyholder and the spouse	US\$15 per year	Accidental death: US\$2,000; monthly pension of US\$170 for one year per permanent disability, depending on the degree of the disability, up to US\$2,000; free repositioning of the electricity meter twice a year
Insurance products distributed by MFIs					
12 insurance companies	Approximately 47 MFIs ⁸⁷	Outstanding debt at the moment of the death. Natural and accidental death; risks affecting the microcredit, such as fire, explosion, terrorism, theft;	Around 130 insurance products offered by MFIs Mandatory products: basic credit life products; business protection linked to credit and mortgage insurance Voluntary products: credit life with additional benefits,	Average premium of US\$8–US\$25 per year; depending on the case, the average percentage of the credit	Not applicable

⁸⁶ Microinsurance products registered as such with the SBS, according to the report of the fourth quarter in 2012 of the SBS.

⁸⁷ This information was obtained by extrapolating the register of insurance products distributed through bancassurance of the SBS (updated in March 2013) and the register of distribution of insurance products through marketers of the SBS (updated in March 2013).

Insurer	Distribution channel and transactional platform	Covered risks	Description	Average premium	Benefit
		funeral expenses; loss of earnings during hospitalization; credit and debit card theft; diagnosis of cancer; disability; unemployment; vehicle	such as funeral expenses, temporary disability, extra benefit at the moment of death, earthquake, business protection not linked to credit, property insurance, funeral insurance, and lost earnings during hospitalization		
Mandatory products					
Insurance companies	Workplace	Disability (temporary and permanent); death and funeral costs caused by an accident or illness as a consequence of an event at work	SCTR: workers' compensation for workers in high-risk jobs such as mining, construction, oil, steel, fishing, and textile production	Not applicable	Not applicable
Insurance companies	Workplace	Natural and accidental death or disability (total and permanent)	<i>Vida ley</i> : mandatory life insurance for workers	Not applicable	Not applicable
Insurance companies	MFIs, brokers, alternative distribution channels, direct selling	Death, disability (permanent or temporary), medical and funeral expenses caused by traffic accidents	SOAT: mandatory insurance for all types of vehicles	Depending on the vehicle and the region	Not applicable
Insurance companies	Brokers and direct selling	Retirement annuities; <i>seguros previsionales</i> (disability, survivors' life insurance, and funeral insurance); disability and survivors' or pension plans	Insurance products related to mandatory pension schemes (PPS)	Depending on the agreement	Not applicable
Insurance products distributed by other distribution channels					
Mapfre Peru	Utility company Luz del Sur (electricity)	Natural and accidental death, funeral expenses	<i>Pluz protección</i>	US\$15 per year	Natural death: US\$960; accidental death: US\$1,936
Rimac	Utility company Luz del Sur (electricity)	Fire and domestic emergencies	<i>Súper hogar protegido</i>	US\$48 per year	US\$10,756 in case of fire; home emergencies up to US\$53 for two times per year
Insurance-like products					
COB UNICAs network	UNICAs	Funeral expenses	<i>Seguro mortuario</i> : funeral insurance	Average premium of US\$10 to US\$15 per year	US\$350
Credit and service	Self-insurers	Natural or accidental death; may also cover other	Informal emergency funds	Average premium between US\$1 and	Not applicable

Insurer	Distribution channel and transactional platform	Covered risks	Description	Average premium	Benefit
cooperatives; emergency funds; mutual associations for support		unforeseen events		US\$20 per month	
Private health care providers	Self-sales force	Inpatient and outpatient care; medical tests; discounts on medicines	Prepaid health care services	Average US\$100 to US\$250 per year	Not applicable
Products with government involvement					
<i>Health products</i>					
	EsSalud offices nationwide	Health insurance providing cover for low-, medium-, and high-complexity diseases	<i>EsSalud independiente</i> : no age limit and available to all Peruvian residents. Targeted to independent workers (professionals, technicians, programmers, artisans, traders, transporters, artists), students, and other entrepreneurs and their dependents (spouse or partner, children under 18, disabled adult or children); medicines provided free of charge	Policyholder: US\$22.94 per month Policyholder + 1 dependent (premium varies depending on the number of dependents)	Not applicable
	EsSalud offices nationwide	Health recovery, (ambulatory and hospital medical care, medicine, orthopedics and rehabilitation), general welfare, economic (temporary incapacity, maternity and funeral services)	<i>EsSalud + seguro regular</i> : compulsory for all formal workers or members of workers' cooperatives; also compulsory for people receiving pensions for retirement, disability, and survival; comprehensive coverage for the immediate family	Equivalent to 9% of monthly income, which cannot be less than the minimum wage and 4% for pensioners	Not applicable
	EsSalud offices nationwide	Medical care, outpatient care, and hospital emergencies; medicines and medical supplies; maternity care	<i>EsSalud + salud</i> : designed for independent workers (salesmen, housewives) who are not insured under <i>EsSalud regular</i> or for pensioners	Premiums range between US\$17.56 and US\$40.15 per month	
	EsSalud offices nationwide	Prevention, health recovery, welfare benefits and social promotion, economic benefits in the event of temporary inability to work (illness or accident), funeral services, and maternity	<i>EsSalud agrario</i> : health insurance that provides special health, economic, and social benefits to formal and informal workers who carry out farming activities or breeding, poultry, agribusiness, and aquaculture, except for the forest industry	For formal workers, paid by employer, 4% of the monthly salary; for independent workers, 4% of the minimum wage	Not applicable

Insurer	Distribution channel and transactional platform	Covered risks	Description	Average premium	Benefit
 Protección	EsSalud offices nationwide	benefits Work-related accidents and occupational diseases for formal or informal workers	<i>EsSalud + protección</i> : for employers and independent workers, provides health benefits until the full recovery and rehabilitation of the insured	Contribution rates vary according to the risk level of activities they perform and the type of worker US\$22 per year	Not applicable
La Positiva Protecta	EsSalud offices nationwide	Personal accident insurance covering death and permanent disability by accident	<i>EsSalud + vida</i> : policyholders of <i>+ seguro</i> and <i>EsSalud independiente</i> can have this insurance. Voluntary enrollment; covers the wife or partner of the insured party if he or she is registered under the health policy	Free of charge, no age limits	Not applicable
 SIS GRATUITO	Enrollment in a nearby health center with valid identification	Integral coverage for 140 health conditions, from asthma to cancer, tuberculosis, and appendicitis	Aims to provide health coverage to Peruvians who do not have health insurance, prioritizing those who are vulnerable, in poverty, or in extreme poverty	Free of charge, no age limits	Not applicable
 SIS INDEPENDIENTE	Enrollment at SIS offices	Comprehensive health coverage	<i>SIS independiente</i> : health insurance for people without any other health insurance cover	Between US\$5.37 and US\$15.41 per month	Not applicable
 SIS MICROEMPRESAS	Microenterprises registered in the national register of micro and small enterprises	Comprehensive health coverage	<i>SIS microempresas</i> : health insurance for workers of formally registered microenterprises in REMYPE and their families	Subsidized by the government and employer 50-50. Total cost US\$10.75 per month	Not applicable
<i>Agriculture products</i>					
La Positiva Mapfre Peru	Regional governments	Catastrophic events as a consequence of climate change, plagues, and related illness	<i>Seguro agrícola catastrófico (SAC)</i> : index-based agricultural insurance	Fully subsidized	Not applicable
La Positiva	Regional governments	Covers losses caused by the El Niño climatic phenomenon	<i>Insurance for agricultural microcredit schemes to support adaptation to climate change</i> : index-based insurance	Fully subsidized	Not applicable
<i>Other</i>					
Not applicable	Banco de la Nación and AON Affinity	Death	Life insurance for beneficiaries of Juntos	Not applicable	Not applicable

Annex 4. Promising microinsurance models and products

Issue	Mi familia arcángel (My family arcángel)	Positiva Vida rural	Mi familia municipal (My municipal family)
Risk carrier	Protecta	La Positiva Vida	Protecta
Distribution channel	Pharmacy: Boticas Arcángel. These pharmacies are dispersed widely among the country's most popular neighborhoods. They have more than 185 branches and 24 health care centers throughout Peru and serve more than 2 million people per month	Civil association: associations and boards of rural irrigation. The associations and boards bring together 114 local associations scattered throughout the provinces, with approximately 2 million members.	Government network; five municipalities of metropolitan Lima
Transactional platform	The pharmacy systems	Individual insurance is acquired through the associations or boards of rural irrigation; the annual premium must be paid in a commercial bank, and the proof of payment must be filed with the association or board of rural irrigation. The insurance promoters are generally persons in charge of collecting the irrigation water tariff.	Municipalities and Protecta. Issuing insurance certificates without the support of agents has been challenging. Currently this support is offered through the insurer's existing systems.
Covered risks	Accidental death; medical assistance	Natural and accidental death; death due to preexisting illness; 50% advance benefit in case of terminal illness; accidental death	Natural and accidental death; funeral expenses and total and permanent disability
Premium	US\$6 per year	Only the policyholder: US\$9 per year; family (spouse and children): US\$20 per year	Between US\$6 and US\$10 per year; the premium is subsidized by the government
Covered amount	Any cause of death: between US\$350 and US\$1,400, depending on the plan; accidental death: US\$530; total and partial disability caused by accident: US\$260; sudden familial abandonment: US\$350; funeral expenses: US\$1,100	<i>Agropositiva vida</i> , designed for farmers of the sierra and jungle regions with household coverage: natural and accidental death: US\$800; death due to preexisting illness: US\$800; 50% advance benefit in case of terminal illness: US\$400; accidental death: US\$4,500 <i>Agropositiva vida</i> , designed for farmers of the coastal region with household coverage: natural and accidental death: US\$1,600; death due to preexisting illness: US\$500; 50% advance benefit in case of terminal illness: US\$800; accidental death: US\$3,200	The product varies from municipality to municipality. For instance, in Comas the coverage is up to US\$2,617 for five types of events: natural death, accidental death, funeral expenses, sudden family distress, and total and permanent disability
Additional features	Protecta card (<i>tarjeta protecta</i>), which is delivered to the insured party at the moment of the acquisition of the product	This approach received support from the Microinsurance Innovation Facility of the International Labour Organization. The program provides financial education on insurance using visual materials in native languages (Aymara and Quechua) to ensure a better understanding.	Offers the protecta card, which was financed by the Microinsurance Innovation Facility of the International Labour Organization
Relevance of the product	This product has a large impact because health services in Peru are deficient, with waiting periods for doctor appointments in public hospitals of more than 30 days. The product also facilitates discounts on drugs purchased at the Arcángel pharmacies.	The Junta Nacional de Usuarios de los Distritos de Riego del Perú (JNUDRP) represents 114 affiliated rural water boards, strategically distributed throughout Peru. There are 66 boards in the coastal region, 35 in the inter-Andean valleys of the mountain region (sierra), and 11 in the Peruvian jungle. Together, they manage 1,452,000 hectares of arable land under irrigation, including 66% in	The beneficiaries are low-income people who are homeowners, either totally or partially. As homeowners, they pay taxes to the local municipality. The target population is composed by self-employed families, most of them microentrepreneurs, who are excluded from a number of services: health and home insurance, access to pension schemes, and access to insurance in general. This insurance

Issue	Mi familia arcángel (My family arcángel)	Positiva Vida rural	Mi familia municipal (My municipal family)
Lessons learned and challenges	Despite its promise, this approach has not achieved the expected commercial development. While "mystery shopping" in a pharmacy, we noted the lack of interest and knowledge of the pharmacy clerk, probably due to a lack of training and incentives.	the coastal region, 24% in the mountains, and 9% in the jungle. There are 1,538 irrigation commissions and 11,550 managers. In collaboration with the JNUDRP, La Positiva seeks to analyze the risk coverage needed by farmers and generate awareness among distributors and consumers about the importance of insurance.	model seeks to satisfy the need for social protection of approximately 280,000 persons. The project is conducted in five municipalities. It aims to create synergy with local governments by fostering a culture of timely payment of municipal taxes and, at the same time, by developing a culture of insurance among residents. The project has been affected by changes in local governments, so there is a risk of politicization. Sometimes consumers do not know who is providing the product. They do not pay the premium and may consider it a social benefit. Some clients have been excluded from these services in part because they do not have property deeds and in part because they work in the informal economy, with irregular incomes.

Annex 5. The Peruvian Government's Financial Strategies

The financial inclusion strategy

Currently the Inter-institutional Committee of Financial Inclusion, comprising the BCR, the MEF, the MIDIS, and the SBS (which is still pending approval), is discussing adoption of a national financial inclusion strategy. In February 2013, the MIDIS published a resolution that is in line with the G-20 approach to financial inclusion.

Financial inclusion is “the access and use of financial services of quality by all segments of the population.” The Inter-institutional Committee of Financial Inclusion defines “access” as the presence of infrastructure and offer of financial services of quality, “use” as the frequency and intensity of use of such services by the consumers, and “services of quality” as services that are tailored to the needs of the consumers.

The strategy seeks to ensure that the population is in the “process of social inclusion,” having (i) access to financial services of quality and (ii) the necessary capabilities to use such services appropriately. Public policies, which seek to promote financial inclusion, must be based on evidence. Preference is given to impact studies and experience with the adoption and implementation of financial inclusion policies.

The goal is to have 1 million people in the process of social inclusion in 2016—that is, with access to quality financial services and the capabilities to use such services.

The financial inclusion guidelines highlight the importance of empowerment, keeping in mind the particularities of the segment of the population in Peru. The provision and generation of financial capabilities are considered as essential to financial empowerment. Financial capabilities are understood to mean the skills to use resources, make free and informed financial decisions, and have access to financial services and opportunities to generate assets. The MIDIS highlights the importance of promoting choice and ensuring that consumers have freedom to choose between different providers.

The guidelines promote innovation, use of technology, and responsible involvement of the private sector in order to provide financial services, financial capabilities, and payment mechanisms. This has been backed up recently by promulgation of the Electronic Money Law.

The guidelines also highlight the importance of insurance as a tool for mitigating the impact of losses in relation to health, life, and property. In this context, insurance helps to avoid the risk in these areas that an event would lead to a decline (or a further decline) in the economic situation of a poor consumer, given that the insurance seeks to put the consumer in the position that he or she would have been in had the particular event not occurred. The financial inclusion guidelines adopt the approach that the population has to be exposed to financial services gradually: first to payment mechanisms, then to saving products, then to insurance, and ultimately to credit.

The financial culture strategy

Since 2007, the Program to Provide Assistance to Teachers about Financial Culture has been disseminating knowledge about finance to high school students. By 2011, the program had trained 3,267 teachers from 1,611 schools and reached 558,657 high school students.

The SBS rolled out the program en masse in order to reach other segments of the population, notably socioeconomic levels C, D and E. Recognizing the importance of promoting public-private partnerships to do so, the SBS partnered with APESEG and ASBANC. In the Financial Culture Plan (FCP), 2009–11, the SBS highlights that the low level of insurance consumption is due to the lack of insurance products and lack of awareness of risk management. The FCP has five components: school curricula, urban training, rural training, a virtual classroom (a website providing information about the financial system), and videos.

The FCP defines financial culture as the capacity to be aware of accessible financial products and to understand how to manage debts, family savings, and financial, insurance, and retirement products. It targets students (children and adults), independent and dependent workers, and people enrolled in retirement plans who are close to retirement. The channels used are schools, universities, professional associations, work spaces, retirement fund associations, and the Center of Guidance for the Potential Retiree. The tools used are brochures, newspapers, radio, television, Internet, and mail. The SBS portal on financial education contains cartoons, videos, and key notes about insurance and supervised insurers.

In 2011, the SBS, with the cooperation of the Universidad del Pacífico, conducted the first “financial culture” survey based on the Organisation for Economic Co-operation and Development (OECD) methodology. The results of the survey were not promising, as the general conclusion was that Peruvians, in particular, socioeconomic levels C, D and E, have very low levels of financial culture.

Financial capabilities are at the core of the financial inclusion strategy, and policies that aim to promote financial culture are welcome. The SBS is interested in strengthening its efforts and coordinating them with other stakeholders, such as the MIDIS, the MEF, APESEG, and ASBANC. Emphasis is placed on the fact that policies on financial education must be based on evidence. Therefore, pilots and impact studies should be promoted. The SBS acknowledges the importance of improving efforts to include insurance in financial culture strategies.

Annex 6. Microinsurance marketers

Indicator	Microinsurance marketer	Marketer of mass insurance products	Bancassurance marketer
Definition	<p>Natural and legal persons with whom the insurance company enters into a “commercialization” contract, in order to commercialize individual or collective microinsurance products.</p> <p>They have to have commercial “locals” providing customer service, with enough physical and human resources and appropriate infrastructure to provide services in safe conditions.</p> <p>They do not need to be registered with the SBS.</p>	<p>Natural and legal person providing services and goods with whom the insurance company enters into a commercialization contract in order to distribute mass insurance products.</p> <p>Besides having commercial locals with appropriate infrastructure and human resources, the marketer must carry out formal commercial activities and be accredited to do so. The marketer must not be classified as a debtor by the financial sector.</p> <p>Insurance companies need a one-time prior authorization to use marketers.</p>	<p>Supervised financial institutions with which insurance companies enter into a commercialization contract to distribute only mass insurance products.</p> <p>Commercialization contracts must be available to the SBS.</p> <p>Insurance companies need a one-time prior authorization to use marketers.</p>
Reporting obligations and information that must be available to the SBS	<p>Statistical information of the microinsurance products highlighting risk, product line, number of insured parties, insurance premiums, and claims paid.</p>	<p>Commercialization contracts must be available to the SBS. Also certain information regarding the marketer must be available, such as a detailed list of the activities undertaken, identification of insurance products that are part of the contract, location of commercial locals, report with a risk assessment of the activities they offer, audit report regarding internal controls adopted by the marketer, and minutes of the board allowing the possibility of using the marketer. Insurance companies must submit to the SBS quarterly reports about their contracts with marketers and, in the case of bancassurance, contracts with bancassurance marketers.</p>	
Training requirements to be a marketer	<p>The Microinsurance Resolution indicates that the contract must satisfy three requirements: (i) the insurance company must agree to train the marketer about the appropriate procedure for entering into the insurance contract; (ii) the marketer must agree to comply strictly with the instructions established by the insurance company; and (iii) the marketer must agree to distribute product information brochures provided by the insurer to the potential insured or policyholders.</p>	<p>Insurance companies have to provide appropriate training and procedure manuals to the employees or to any other person in charge of promoting, offering, and commercializing products. The training must include information not only about marketed products but also about the procedure for entering into a contract, the payment of premiums, the handling of claims, and the payment of compensation. They also must provide marketers with brochures and appropriate material about insurance products.</p>	
Responsibilities and obligations of marketers and insurance companies	<p>All communications and claims presented to the marketer have the same effect as if they were presented to the insurance company. All payments made to marketers are considered paid to the insurance company.</p> <p>Insurance companies are responsible for any wrongdoing (errors or omissions) and damages caused by the commercialization of the microinsurance products that the marketer distributes. This is without prejudice to the liability of the marketer to the insurance company.</p>	<p>All communications and claims presented to the marketer have the same effect as if they were presented to the insurance company. All payments made to marketers are considered paid to the insurance company.</p> <p>Insurance companies are responsible for ensuring that marketers notify the company when they are aware of the death of the insured party. They are also responsible for any wrongdoing on the part of marketers and for seeing that marketers explain in appropriate terms the covers and characteristics of insurance products.</p>	

Annex 7. The debate on microinsurance in the APESEG

The Association of Peruvian Insurance Companies was created in 1974, after the Committee of Peruvian Insurers, constituted in 1904, was converted into the Association of Peruvian Insurers in 1953. Since then, it has supported the development of Peru's insurance industry, notably by bringing together and representing all insurance and reinsurance companies licensed in Peru. In particular, the provision of insurance products to segments C and D has been a topic of debate among insurers in this forum. As a result of this debate, the APESEG created the Microinsurance Committee in 2008, just after the SBS issued the first Microinsurance Resolution in 2007. The Microinsurance Committee has proved to be an appropriate forum for insurers to discuss ways to develop the Peruvian microinsurance market and a good tool for enhancing the dialogue between the industry and the SBS. In particular, the APESEG developed a proposal to standardize clauses regarding life microinsurance and a plan to promote the development of microinsurance in Peru. In addition, the APESEG, financed by the Multilateral Investment Fund (FOMIN) and the Inter-American Federation of Insurance Companies (FIDES) under the Microinsurance Program for Latin America and the Caribbean, is working to create an information system for microinsurance to support the monitoring and evaluation of the microinsurance market in Peru, notably by creating performance indicators.

The information system is intended to offer precise and reliable data regarding microinsurance products. The system can generate and compile information by policies, insured lives, claims ratios, and distribution channels at the national or regional level, so insurance penetration can be measured by regions. It will support FIDES in compiling information on the development of microinsurance in the region and will be available for all of its associates. The system has been developed, and insurance companies in Peru are adding updated information for 2012 and 2013, which will be available by February 2014. The purpose is to replicate the system among other insurance associations in Latin America.



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