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Microinsurance: Introduction, Case Studies, Outlook

The Savings & Credit Forum of 30 November 2007 presented a conceptual overview, as well as two practical case studies on the topic **microinsurance**. Mr. Hansruedi Pfeiffer, Swiss Agency of Development and Cooperation (SDC) opened the forum by welcoming the participants and shortly introducing the speakers: Craig Churchill, International Labour Office (ILO) and co-ordinator of the CGAP Microinsurance Working Group, Urs Schwartz, Zurich Financial Services (ZFS) and Bruno Galland, *Centre International de Développement et de Recherche* (CIDR).

An Introduction to Microinsurance (Craig Churchill)

Mr. Craig Churchill started his presentation by defining microinsurance as the provision of insurance services to low income people. He highlighted two different perspectives of microinsurance: a first “social perspective” that sees in microinsurance a way of increasing social protection to low income people. The second “commercial perspective” sees microinsurance as a means of creating more inclusive financial markets through commercial insurers who offer their services to a low market segment (“downmarket”).

Insurance is a financial service containing a risk pooling element. Mr Churchill presented a comparison of microinsurance and other financial services such as savings or credit, which can also serve as an instrument in dealing with risks and economic stresses. Today, microinsurances are mainly delivered by credit unions or cooperatives having their own insurance departments, by microfinance institutions (MFIs), health mutuals, by informal schemes (such as burial societies), and more recently also by insurance companies going downmarket. The speaker pointed out that insurance is the best instrument to cover against a risk, when the relative loss suffered is costly but its chance of occurring low. In other cases, savings or emergency loans may be better suited - whereas an emergency loan is only a solution if the risk does not affect the source of income. Mr Churchill also emphasised that a large part of the world's population is insured through informal schemes, or they do not have any access to insurance at all, even though they would be “insurable” through market mechanisms. On the other hand, there are also people, who are not insurable with market mechanisms and hence need subsidised social protection.

One challenge of delivering insurances is the building up of a trust relationship between the insurance provider and the client: often it actually needs a claim to make a client understand the value of insurance. Furthermore, products have to be adapted to low income clients: it is essential that a provider understands what risks poor people are concerned about, and how they currently manage these risks. Products have to remain simple, and the irregular cash flows of the poor have to be taken into account when designing the schemes and the premium. Mr. Churchill noted that illness and death are the two risks that low income groups are the most concerned about. He then presented several insurance products, their challenges and degree of complexity: credit life, accident, savings life, property and endowment, health and agricultural insurance. The speaker also pointed out that linking insurance to savings has proven to be much more effective than linking it to credit. So far agricultural insurance has had the least amount of success, recent experience with weather insurance still has to prove its effectiveness.

Microinsurance Operations of Zurich Financial Services in Bolivia (Urs Schwartz)

After a short break, Urs Schwartz from Zurich Financial Services (ZFS) outlined the case of a commercial insurance company going downmarket by presenting the microinsurance operations of ZFS in Bolivia. The speaker particularly emphasised the partnership between ZFS and selected MFIs in the delivery of microinsurance products to poor clients. Since January 2007, there exists a public private partnership between ZFS, SDC, and ILO aiming at providing insurance services to low income clients. In Bolivia, ZFS started cooperating with the microfinance bank *Banco Sol* in providing mandatory credit life insurance as early as 1999. MFIs were interested in insurance, because they realised that their portfolio quality tends to be better if clients are protected against certain risks. The decision to enter the low income market was based on commercial grounds: going downmarket was the only way to expand and record substantial growth.

Since 2003, ZFS collaborates with *Banco Sol* and the MFI *Prodem* in providing voluntary insurance products: a live insurance linked to the clients' savings account (the coverage is linked to the amount saved and thus serves

as an incentive to increase savings) and an affordable health insurance. The roles of the MFI/bank are to act as a distribution channel, premium collector and reception point for the claims documentation. ZFS's experience showed that the commitment of the distributing partner's senior management is crucial to successfully implement this new service. Moreover, in order to make microinsurance effective, a provider does not only need innovative products, but also different procedures than in the "normal" insurance business. It is also important that the marketing strategy contains an "educational" element in order to explain the complex concept of insurance to clients. A key for success is also well trained staff and a good information technology. Microinsurance is a high volume/small margin business; processes therefore need to be very efficient in order to be profitable.

Mutuelles de Santé au Bénin (Bruno Galland – presentation in French)

After a common lunch, Mr. Bruno Galland, *Centre International de Développement et de Recherche* (CIDR), introduced the formerly SDC supported health co-operatives in Northern Benin. This case study illustrated lessons learnt in providing health insurance to the very poor. The health mutuals offer a voluntary health insurance for an average premium of only 2.50 € a year.

The speaker first presented the organisational structure of the mutual insurance system of *Réseau Alliance Santé* and outlined its key operational challenges. The mutual insurance system of *Réseau Alliance Santé* (RAS) is composed of regional mutual insurance associations, which are based on the mutual groups of several villages. The information work and the collection of premiums are done on a voluntary basis at the village level, and then transferred to the management of the *intermutuelles* at the regional level. The task of the network RAS is to provide management support, guarantees and reinsurance to the health mutuals, carry out medical audits and lobby on the political level to improve the national health system.

Mr. Galland presented several lessons learnt from the experience in Benin. He pointed out that in the African context decentralised mutual insurance systems can play a major role to protect against health risks. It is, however, essential to closely collaborate with national health authorities and to target financial self-sufficiency by reaching a certain scale, diversifying products and adapting them to demand and clients' needs. Today, the regional mutual insurance associations do cover their operational costs; however, the central network RAS is not yet financially self-sufficient. In order to achieve financial self-sufficiency, the network is planning on increasing scale, diversifying its products and increasing the contribution of the regional mutual insurance associations.

Opportunities and Challenges of Microinsurance (Craig Churchill)

During the last presentation, Craig Churchill summarised the key differences between micro- and conventional insurance. A main difference is that in the microinsurance business, the agent plays the central role through a much broader relationship with his/her clients. Moreover, screening requirements are very limited in microinsurance, which makes microinsurance more inclusive. The speaker also summarised the factors of success for commercial insurers wanting to offer their services to low income clients. It is of great importance to analyse and understand the market and to adapt products and processes to the needs of poor clients. In order to achieve financial self-sufficiency, efficiency has to be improved; this can be done e.g. by using technology. One important success factor is to leverage existing relationships, e.g. by collaborating with MFIs.

Mr Churchill also shortly emphasised the importance of an enabling environment, and pointed to the role governments and donors can play in supporting such an environment. A big challenge for the future of microinsurance is surely to move beyond simpler insurance models such as life insurances to the rather complex insurances such as health and agriculture insurance, being the ones that are most demanded by low-income people. Another challenge will be to understand the impact of different microinsurance schemes. The speaker also pointed to the fact that preliminary guidelines for donors of the CGAP microinsurance working group exist in a draft version and will soon become available

After a short discussion, Hansruedi Pfeiffer summarised the key findings of the workshop and pointed once more to the complexity of the microinsurance issue; but Mr Pfeiffer also highlighted the fact that the insurance sector can learn much from the recent experience of the microfinance industry. He thanked the speakers, the participants and organisers of the forum for the rich presentations and the good organisation of the forum.

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