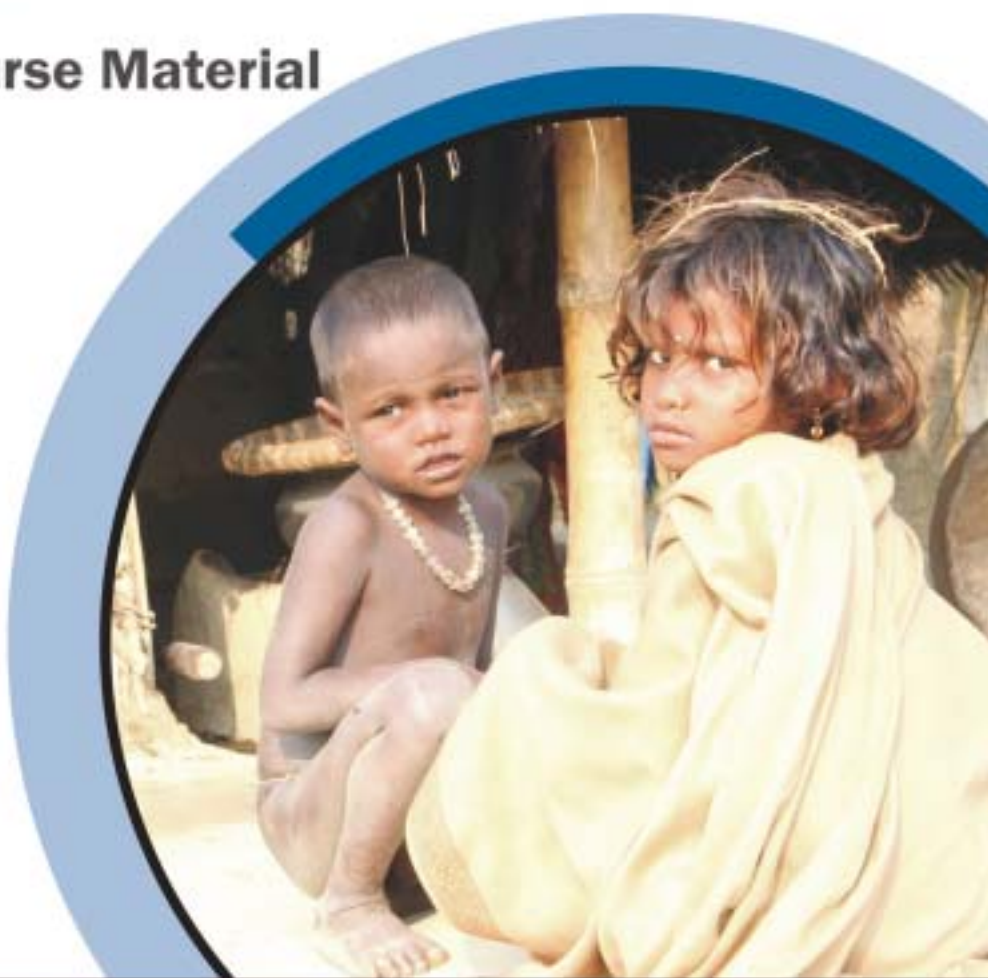


**Community-Based  
Disaster Risk Reduction**

# **MICROINSURANCE FOR DISASTER RISK REDUCTION**

**Course Material**



The Training  
and Learning  
Circle





**Community-Based  
Disaster Risk Reduction**

# **MICROINSURANCE FOR DISASTER RISK REDUCTION**

**November 2009**

The Training  
and Learning  
Circle

## Introduction

The Training and Learning Circle (TLC) is a network of training institutions and universities that has been organised to re-examine, strengthen, and facilitate the crucial interface between training and education for community based disaster risk reduction (CBDRR). The TLC aims to strengthen the capacity of training institutions and universities by reviewing existing and developing new learner-centred learning materials and methodologies. The TLC enhances learning through South-South knowledge and solution exchanges, with a focus on addressing systemic gaps and topics in training and education that would benefit from a sector-wide approach. All India Disaster Mitigation Institute (AIDMI) is promoting and facilitating the formation of TLC in India, and Asia, together with the ProVention Consortium, the Asian Disaster Preparedness Centre (ADPC), the Centre for Disaster Preparedness (CDP) in the Philippines, and the UNDP's Special Unit for South-South Cooperation.

Title: Microinsurance for Disaster Risk Reduction

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# Reaching New Heights in Training and Learning

Training and learning around Disaster Risk Reduction (DRR) and humanitarian studies has been steadily picking up across India. All India Disaster Mitigation Institute (AIDMI) receives several requests each month from universities and training institutes to help them design a course, identify a suitable research topic or case study, develop a module, or receive their students for an internship. AIDMI receives so many requests because of the organisations leading role in disaster risk management since 1989 and its partnerships with UNDP, ADPC and ProVention under the Training and Learning Circle (TLC). The TLC is a group of 39 training institutions, universities, and CSOs in India that share knowledge and expertise regarding disaster risk management.

These requests come in as the general conditions of India's universities remain a serious cause for concern, even 60 years after independence. Though remarkable exceptions exist, including the much celebrated IITs and IIMs, the educational standards in many universities should be much higher to reflect the talent of their teachers and students. Yet economic expansion over the past five years has not been matched by suitable investments in universities or expanded opportunities for either students or faculty.

The traditional learning modalities of universities can incorporate many of the key functions involved in the advancement and transmission of DRR knowledge, including research, innovation, teaching, training and continuing education. Beyond these core activities, there is one additional component unique to this area of study: the globalisation of DRR and humanitarian response. Despite the crucial need for applied research around international DRR and humanitarian response, these topics lack interest and investment within our universities. Too much of the research that is conducted on the topic follows international interests and priorities identified in Geneva, London or New York. This research is often borrowed by our authorities and unsuccessfully applied to India's distinct context. Unfortunately, the flow of resources strongly influences the issues researched. The need for research on uniquely Indian issues becomes secondary to the priorities set by people thousands of miles away.

Need-based research rooted in India's experience, but that is globally relevant, can easily originate with India's faculty and students. I have met these faculty members and students throughout India; they are consistently involved in both post-disaster response and in planning and preparedness initiatives between disasters. Yet attendant research has yet to develop a suitable profile or substantial following. Meanwhile, young people's hunger for university education and opportunities is rapidly expanding. Whether they come from small towns or larger cities, youth seek both knowledge and professional prospects. Developing a standardised system of student skills and course equivalents has also become an important issue as universities develop courses in the relatively new fields of DRR and humanitarian response.



In addition to understanding what needs to be researched and why, we must recognise the formidable challenges in financing education. Unfortunately, the Tata's investment of Rs. 100 crores in the Disaster Studies Institute is a rare exception. Several other corporate houses can repeat such investments in knowledge. AIDMI's efforts towards this have remained fruitless. There is an apparent deficit of resources to support research and courses on risk management; valuable, badly-needed innovations by teachers cannot be implemented without increased financial commitment to education in these areas. As Indian universities rush towards the future, meeting the challenges of expanding the academic base of humanitarianism becomes more urgent. We must tackle these dilemmas within the next five years if India's university system is to keep up with the nation's rising leadership in the global humanitarian system. Regular training should now include conceptual and applied topics on natural and social risks. Discussions should focus on the unique aspects of the Indian context and how these conditions influence humanitarian relations with other nations and international organisations.

It is with these thoughts in mind that AIDMI supports the efforts of Indian universities in DRR. AIDMI's Mehul Pandya and Tommy Reynolds create this ToT Module on Microinsurance for Disaster Risk Reduction with Dr. Vedant Pandya of Bhavnagar University, Rakhi Bhavnani of ISDR, and Kuldeep Sagar, an international consultant. The ToT Module has been pilot tested in December 2008. I welcome others to join TLC in our efforts to develop and use knowledge to make India safer from disasters.

**Mihir R. Bhatt**

All India Disaster Mitigation Institute

# Foreword

The Special Unit for South-South Cooperation in UNDP is proud to present a Training Manual on Community Based Disaster Risk Reduction (CBDRR) and Micro Insurance. This manual was developed by the All India Disaster Mitigation Institute (AIDMI) based on its long experience on the subject.

The development of this manual came about as a result of a process of identification of priority knowledge products by the core members of the Training and Learning Circle( a network of trainers and learners on CBDRR facilitated by the SU-SSC). While there is an increasing demand from various partner agencies on inputs on micro insurance, a recent review (September 2009) of existing training materials on CBDRR undertaken by AIDMI revealed that there is a dearth of reference materials on this relatively new topic. The production of this manual is therefore very timely and relevant for India and for other developing countries as well, particularly at this juncture when recovery from disasters has been a painful process for the poor. Micro insurance is designed for the poor people to help them recover after the onslaught of a disaster.

The CBDRM and Micro insurance Training Manual covers the following modules: Micro insurance' relevance to CBDRR; Guidelines for developing community driven micro insurance products; and, Assessing Micro Insurance Demand. The manual also includes four case studies of micro insurance initiatives in India, one of which is administered by AIDMI. These cases provide different micro insurance models which are tried and tested as well as lessons learnt.

The special Unit for South-South cooperation would like to once again thank the partners under the TLC project for this collaboration.

**Yiping Zhou**

Director

Special Unit for South-South Cooperation in UNDP

# Why Create a Knowledge Product on Microinsurance?

AIDMI has conducted a review of a selection of training materials from participating agencies in the TLC network, and has identified a number of gaps in the subjects covered. Based on these gaps, AIDMI intends to develop a series of knowledge products that can be used by training institutions in the network to address key issues of CBDRR, as suggested by the TLC's key objectives, activities and outcomes.

As microinsurance for CBDRR was identified as one of the key gaps in training material, AIDMI has produced this knowledge product. Training modules are designed to increase the level of awareness about microinsurance amongst organisations. They emerge from AIDMI's experience with its *Afat Vimo* (disaster insurance) work in India and in the region.

In India, personal, household and small business assets are often unprotected against disasters. The costs for relief and rehabilitation often rely on aid; but support from outside entities is often unpredictable – leaving the damaged assets of the poor difficult to replace and making recovery difficult. Groups that fail to recover are more vulnerable to subsequent disasters. Insurance covers many losses but is often unavailable to the poor due to the high transaction costs.

Microinsurance is one of a number of methods that has emerged to allow the poor to access risk transfer products. Microinsurance puts cash into the hands of people so they can better lead their own recovery. Microinsurance has emerged in a policy environment that has made recent progress towards disaster risk reduction. Recent insurance regulatory reforms within the Government of India and the dedication of global donors have contributed to the advancement of microinsurance for the poor.

The promotion of microinsurance across India and Asia has enormous potential for offsetting economic losses faced by the poor. The knowledge product on microinsurance will help trainers to promote a culture of risk management within their organisations and with those whom they serve.

# Overview of the Microinsurance Development Series

The "Microinsurance Development Series" has been developed by the All India Disaster Mitigation Institute as one of the key activities of the Training and Learning Circle.

This module uses the experience of key microinsurance providers in India. By providing participants with examples of good and successful practice, this module should give them a good introduction into practical design and delivery mechanisms. After reviewing the case studies, teachers will be encouraged to identify elements that they could use in their own organisations, as well as developing new ideas.

## How to Use this Course Material

The four modules in the knowledge product may be used in isolation as singular training seminars, or alternatively used together within a daylong training session. Each module is designed to last 1h 30mins, so a daylong session of 4 modules will last at least 6h, plus at least 1h in breaks. The modules are designed for delivery to a group of participants, whether they represent one or a variety of different organisations.

Additional information on how to implement each module can be found in each module's Facilitator's Note. There is also optional guidance material for trainers wishing to hold a daylong session, including opening and closing activities.

## Outline of Modules

### Module 1 - Introduction to Microinsurance and its Relevance for CBDRR

Module learning objectives:

By the end of this module you should be able to:

- Define microinsurance
- Explain the history of microinsurance
- Explain the usefulness of insurance as a tool for transferring disaster risk from the poor
- Explain common models of microinsurance
- Determine if microinsurance is suitable for your constituency and partners
- Identify stakeholders in microinsurance provision
- Explain the unique structure of index-based products
- Identify opportunities for up-scaling existing products

## **Module 2 - Assessing Microinsurance Demand**

Module learning objectives:

By the end of this module, you should be able to:

- Explain the relevance and process of effective microinsurance demand assessment
- Identify key factors that influence potential policyholder demand for a product
- Outline a process for assessing demand for microinsurance among your constituency

## **Module 3 - Guidelines for Developing Community-driven Microinsurance Products**

Module learning objectives:

By the end of this module, you should be able to:

- Explain the stages of microinsurance programme implementation
- Define typical microinsurance activities and responsibilities
- Explain effective risk transfer strategies for common risks
- Explain strategies of identifying an insurance partner
- Identify central aspects of insurance marketing
- Outline a process for a microinsurance development with your constituents

## **Modules 4 - Four Case Examples of Successful Microinsurance Initiatives in India**

Module learning objectives:

By the end of this module, you should be able to:

- Explain four Microinsurance (MI) policies currently used in India and how they address CBDRR
- Identify central strengths and weaknesses, opportunities, and threats of each policy for CBDRR
- Build on these case studies with ideas for your constituents

# Abbreviations

ADPC	Asian Disaster Preparedness Center
AIDMI	All India Disaster Mitigation Institute
AIG	American International Group
CBDRR	Community Based Disaster Risk Reduction
CBO	Community Based Organisation
CCISB	Chamber of Commerce and Industry for Small Businesses
CDP	Center for Disaster Preparedness
CRIG	Community Rural Insurance Groups
DFID	Department for International Development
DRR	Disaster Risk Reduction
GO	Government Organisation
ICICI	Industrial Credit and Investment Corporation of India
IIASA	International Institute for Applied Systems Analysis
ILO	International Labour Organization
IRDA	Insurance Regulatory and Development Authority
MFI	Micro Finance Institution
NGO	Non Governmental Organisation
PRA	Participatory Risk Appraisal
SEWA	Self-Employed Women's Association
SU-SSC	Special Unit for South-South Cooperation
SWOT	Strength Weakness Opportunities Threats
TLC	Training and Learning Circle
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund
UNISDR	United Nations International Strategy for Disaster Reduction

# Module 1

## Introduction to Microinsurance and its Relevance for CBDRR







# Introduction to Microinsurance and its Relevance for CBDRR



## Learning Objectives

By the end of this module you should be able to:

- Define microinsurance
- Explain the usefulness of insurance as a tool for transferring disaster risk from the poor
- Explain common models of microinsurance
- Determine if microinsurance is suitable for your constituency and partners
- Identify stakeholders in microinsurance provision
- Explain the unique structure of index-based products
- Identify opportunities for up-scaling existing products



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## Facilitator's Note

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## 1.1 What is Microinsurance?

In this section, we discuss the definition of microinsurance and how it is distinct from traditional insurance. We will also discuss its history and evolution into the variety of products that are currently offered.

### Introductory Group Discussion:

1. Do you have insurance of any kind? Why do you buy it? How does it work? What do you choose to buy it for (i.e. life, health, liability, etc.) and not buy it for (flood, etc.)?
2. What kind of risks do those you work with face? Loss of property? Loss of life?
3. Do they buy insurance? Why (not)? What inhibits provision to them?
4. What makes the insurance we will discuss "micro"? Can you make a definition?

"Traditional" insurance products are familiar to many households in both developed and developing countries. These insurance products are purchased for the periodic payment of a premium\* and reimburse an individual an agreed amount for losses covered under the specific policy. Common examples in India include life insurance sold by the Life Insurance Corporation of India, property insurance policies sold by ICICI Lombard and a wide range of other policies available from both private and state enterprises.

Yet the majority of these products are only purchased by the wealthy and middle class and do not adequately service the needs of lower income households. Present studies estimate that more than 90% of the Indian population does not benefit from any kind of social protection, including insurance.<sup>1</sup> To address this gap, both governments and private companies have begun to develop a range of insurance products that target the poor and prioritise their needs. These products have come to be referred to as microinsurance.

Although various institutions involved with the provision microinsurance adopt slightly varied definitions, **a durable definition describes microinsurance as "the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved"**<sup>2</sup>. In this sense, microinsurance is distinct from traditional insurance in that it focuses on low-income people and the risks that they face. The intent of microinsurance providers is to offer products accessible to the poor that cover small-scale assets (i.e. a small home, tools, trade stock, etc.) at affordable premiums by keeping transaction costs low.<sup>3</sup>

The following table offers a glimpse of key similarities and differences between microinsurance and the more familiar traditional insurance.<sup>+</sup>

\* A glossary of key microinsurance terms is available in Annex 1.

+ Annex 2 includes a more comprehensive list of differences between traditional insurance and microinsurance.

1 ILO, 2005

2 Churchill, 2006, p. 12

3 Peppiatt, 2006

**How is Microinsurance Different from Traditional Insurance?**

Similarities	Differences
<p><b>Purpose:</b> Many individuals, as policyholders, share the costs of a risky event</p> <p><b>Means:</b> Coverage is exchanged for payment of a periodic premium</p>	<p><b>Focus:</b> Microinsurance focuses on low-income people and the risks they face.</p> <p><b>Maturity:</b> Where traditional insurance products, systems, and awareness are fairly well established among their target locations, those for microinsurance are still emerging.</p> <p><b>Provision:</b> When risk transfer suits their missions, microinsurance may be distributed by NGOs or MFIs instead of as key distribution channels.</p> <p><b>Simplicity:</b> For efficiency, microinsurance depends on simple rules and claim mechanisms.</p>

**The Microinsurance Market**

The recent growth in popularity of microinsurance is due in part to the opportunity it simultaneously offers to private insurers and social service organisations. On one hand, microinsurance seems to allow private companies to sell their products and grow; on the other hand, microinsurance provides a valuable risk transfer service to the poor and complements poverty reduction efforts of governments, NGOs, and MFIs.

**1.2 Importance of Microinsurance for Pro-Poor Disaster Management**

Despite the high levels of economic growth seen in India over the past decade, the cycle of disasters and vulnerability deprives many millions of poor of the human development that might have accompanied such growth. Within Asia, 24 percent of deaths due to disasters occurred in India because of its size, population, and vulnerability.<sup>4</sup> Within India, poor households are more severely affected and often lack savings and access to other social safety mechanisms. Microinsurance is one of several risk management tools that allows the transfer of some of these risks from poor households to insurance and reinsurance markets, and can result in lower recovery costs for those affected.

The concept is based on the fact that by forging relationships with other community members, low income households can reduce vulnerability reduction more holistically than they could through individual strategies. As such, risk is transferred from one household to the community or inter-community level with groups in different geographic locations that are not exposed to the same disaster risks.<sup>5</sup>

Despite the importance of insurance as a central aspect of disaster risk management, individuals in developing countries often remain uncovered. When disasters strike, poor households can be forced into situations where they forgo investments in education, sell livelihood assets, or take on high interest loans.

4 GoI, 2002

5 AIDMI, 2006

Microinsurance has emerged in this context as a means to help meet the needs of poor households. As such, it can offer several advantages, including:

- predictable financial resources for recovery,
- post-disaster liquidity for continuation of livelihoods<sup>6</sup>,
- promotion of investments in productive assets<sup>7</sup>,
- incentives to reduce risks if insurers offer tiered premiums<sup>8</sup>,
- more local decision making about recovery investments<sup>9</sup>.

Yet, due to complexities involved with calculating accurate pricing and avoiding fraud, adverse selection, and moral hazard, insurance products have remained expensive and only accessible to large businesses and wealthier households.

To address the gap between the demand for appropriate risk transfer from the poor and the few relevant products offered at the time, the Insurance Regulatory and Development Authority of India began to require that Indian insurers meet quotas in service to rural and low-income households. According to the policy, regulated providers that begin insurance provision following 1999 must meet certain quotas. This quota system has put considerable pressure on insurance companies to service traditionally excluded families and areas.

The result has been exploration into microinsurance as a mechanism to meet regulatory quotas at lower costs. The leadership of pioneering insurance companies, civil society intermediaries, and the private sector has resulted in microinsurance policies that now cover over 30 million individuals in India<sup>10</sup>. Although it is not yet known to what extent the different products really benefit the poor, the combination of the regulatory requirements and dedicated practitioners has helped make India a laboratory for microinsurance product testing with more policyholders than any other country.<sup>11</sup>

### 1.3 Common Microinsurance Products

In India, the first microinsurance schemes developed from traditional informal cooperative models and cover against funeral expenses, unemployment, accidents, and loss of life. In the past 10 years, application has expanded to include a wide variety of distribution channels including community-based savings groups, microfinance institutions (such as SEWA, BASIX et al.), credit unions, chambers of commerce (including Gujarat's Chamber of Commerce and Industry for Small Businesses), commercial insurance companies, and government social protection services.

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6 Mechler et al. 2006

7 Cole and Topolova, 2007

8 ProVention Consortium (forthcoming)

9 Scheper et al. 2006

10 Roth et al. 2007 p. 19

11 Reynolds and Pandya, forthcoming

### 1.3.1 Different Products for Different Needs

#### Group Discussion:

1. What risks do you face on a daily basis?
2. Again, think of risks faced by people you work with (loss of property, loss of life, etc.). What consequences would arise if these risks occurred, immediately, and in later months and years?
3. Do mainstream insurance providers have products for their risks?

The range of available and potential microinsurance products can help low-income households manage risks related to their priorities. According to comprehensive research by the International Labour Organisation<sup>12</sup>, primary self identified risks among small-scale entrepreneurs related to financial losses that resulted from:

- the death of a family member,
- illness or injury,
- natural disasters, or
- theft or property damage.

Addressing these risks requires accurate selection of insurance products. The following list includes the most common products for the Indian market as well as brief descriptions provided by Microfinance Gateway<sup>13</sup>.

#### Life Insurance

Life Insurance covers the policy holder and his/her family on the event of death and disability. It is an important measure of financial security for low-income households and the insurance product currently most widely available. Life insurance is a relatively low-risk product for the provider.

#### Health and Disability Insurance

Health insurance covers health care related costs linked to illness, injury and medical treatment. Health policies offer many different options and combinations. Insuring health risks is a complex task and highly dependent on access to the existent health care infrastructure.

Disability insurance protects the policyholder and his/her family in case of disability. Examples include that of CARD MBA<sup>14</sup> of the Philippines.

#### Agriculture Insurance

Insurance products for agriculture can be categorised as livestock insurance, crop insurance, weather insurance. Agricultural insurance aims to reduce the vulnerability of low-income households faced by natural disasters like drought, flood or livestock affecting epidemics.

12 Churchill et al. 2003

13 For additional information on microinsurance products, see: [http://www.microfinancegateway.org/resource\\_centers/insurance/products#8](http://www.microfinancegateway.org/resource_centers/insurance/products#8).

14 McCord and Buczkowski, 2004

**Livestock Insurance**

Livestock insurance is an agricultural insurance and covers against loss of livestock owned by the policy holder(s). Most livestock insurance schemes insure against a specific peril and can be paid out in the form of a lump sum payment or livestock replacement.

**Crop Insurance**

Crop insurance is an agricultural insurance product and covers crops against perils such as hail or fire. Index instruments are often used for crop insurance to avoid moral hazard risks and is not connected to one particular crop, but is based on the measurable occurrence of a specific peril.

**Weather Insurance**

Weather or climate Insurance is an agricultural insurance product and like crop insurance, often linked to index insurance. A key issue, for example, with weather index insurance is to have a strong correlation between the index (the rainfall) and the output expected (the harvest).

**Property and Asset Insurance**

Property and asset insurance covers against damage of property and damage and/or loss of assets in the event of the covered perils. Deposit insurance, addressing the risk of bank or MFI solvency problems as a type of asset insurance, is especially important for low-income households.

**1.4 Microinsurance Roles and Models**

Organising and streamlining microinsurance for client needs is a complex effort; it requires contributions and commitments from a range of different institutions, including insurers, intermediary community organisations, and target households. This section of the training discusses the critical stakeholder groups and some of the most successful models for microinsurance provision in India.

A microinsurance system involves the following stakeholder groups<sup>15</sup>:

- **Insurer-** who carries the risk, finalises premium and product design and ultimately pays claims
- **Delivery channel-** who sells the insurance policy and provides basic after-sales services; they are in contact with the policyholder and should be close to poor people (this role may be assumed by the insurer, an agent, an MFI, etc.)
- **Policyholder-** who buys the product (may be an individual or a group)
- **Covered lives-** those who benefit from coverage (may be family or group member)
- **Reinsurer-** provides insurance to insurers for catastrophic risks (reinsurers are not always involved in microinsurance)

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<sup>15</sup> Roth et al. 2007

Understanding how these groups work together to streamline their systems and information flows is key to efficient insurance provision.

The following four models are the most common mechanisms for providing microinsurance in India. They help us to understand how each of these actors can play a role. Organisations considering taking up microinsurance initiatives should consider the advantages of each into account in order to achieve the best fit with the context of their clients.

### **Partner - Agent Model**

Commercial or public insurers together with MFIs or nongovernmental organisations (NGOs) collaboratively develop the product. The insurer absorbs the risk, and the MFI/NGO markets the product through its established distribution network. This lowers the cost of distribution and thus promotes affordability.

This model of collaboration has become the dominant approach to microinsurance in India and has encouraged many microfinance institutions to switch from a full service model to the partner-agent

model. Examples of this scheme are AIDMI's *Afat Vimo* as well as SEWA, a microinsurance pioneer, who offers its life, health and asset coverage in partnership with various insurers.

### **Community-based Model**

A group of people or local communities, MFIs, NGOs and/ or cooperatives develop and distribute their own product, manage the risk pool and absorb the risk.

The Swayamkrushi Youth Charitable Organisation (YCO) in Andhra Pradesh is an example of a community-based model. It is primarily a savings and credit association with added insurance features. The cooperative's 8,100 members pay a yearly premium of Rs. 100 (\$2.22) into a pool managed by the cooperative and receive cover for death and property loss. The life insurance benefit is Rs. 15,000 (\$333) for a natural death and Rs. 30,000 in the event of an accidental death.

### **In-house or Full-service Model**

In the full-service model, an MFI or NGO runs its own insurance scheme for its clients and any profit or loss is absorbed by the MFI. The system is not very common anymore but it still exists in some organisations such as SPANDANA, located in Guntur, Andhra Pradesh. This scheme started in urban areas and then moved to rural ones and has expanded enormously in recent years.

### **Provider Model**

Banks and other providers of microfinance can directly offer or require insurance contracts. These are usually coupled with credit, for example, to insure against default risk.

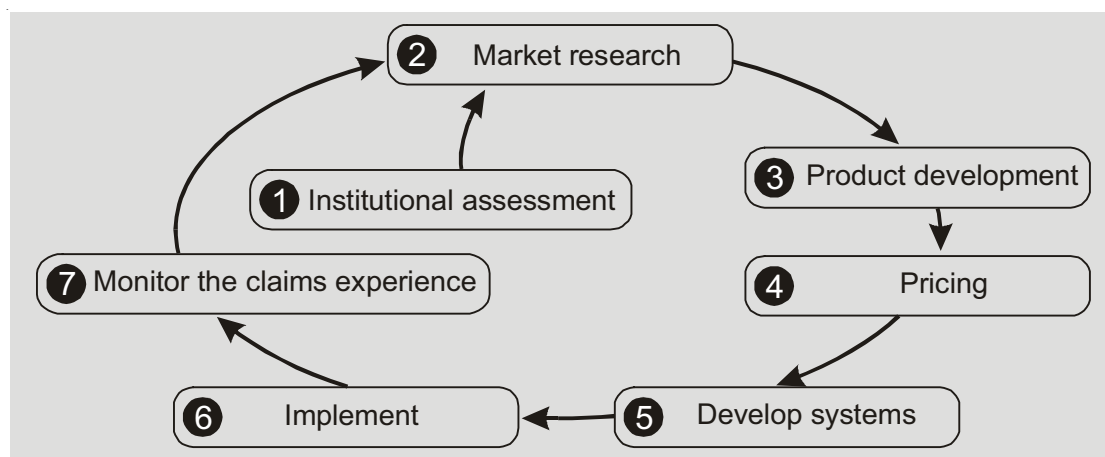
This model is used widely in the general insurance market but high transaction costs and low ability to pay premiums inhibit its extensive use in the field of disaster insurance for the poor.

Microinsurance contributes to breaking the cycle of poverty and mitigating disasters. This is possible because it helps transfer life as well as non-life risks and fits the states priorities of the international community.

## 1.5 Basics of Product Design and Provision

Designing and implementing a robust microinsurance product is a complex process involving actuarial experts, delivery channels, underwriters, and community leaders. Microinsurance development is a cycle that flows from conception to roll-out and renewal. More specifically, it involves the following seven steps.<sup>16</sup>

### The Microinsurance Development Cycle



Source: Churchill et al. 2003

1. Institutional assessment of capacity to develop a product and assemble the required team.
2. Market research to determine the need and demand for insurance, and to gather information about prospective clients. Information about any products offered by competitors is also required.
3. Product development, including the definition of insured event, benefit, eligibility criteria, term, etc. and assessment of operational requirements, legal compliance, capital requirements.
4. Pricing of risk premiums:
  - Estimate the probabilities of the insured events, based on other insurers' experience, general population data or any other sources of information adapted for the anticipated market;
  - Combine with the desired benefit design to obtain risk premiums; and
  - Determine the allowances for administration expenses, surplus, contingencies, cost of capital and investment income.
5. Develop systems, marketing material, staff training.
6. Implement the product.
7. Monitor the claims experience as it emerges:

<sup>16</sup> Churchill et al. 2003



- Compare the actual claims experience to that expected in the premium basis using an experience investigation; and
- Return to step 2, adjusting the expected premium basis in light of the experience investigation and any other new information about the market, new factors affecting the risk and so on.

## 1.6 Issues for the Future

### Reaching Scale

In spite of the limitations identified above, microinsurance products remain a powerful tool for managing risks faced by the poor. Between 2006 and 2007 alone, it is estimated that the number of low-income people with access to microinsurance grew by 50%.<sup>17</sup> To continue to expand their reach and provide quality service, current and future products will have to be "scaled up" to reach more people.

The potential is huge, but there is insufficient experience with current programs to judge their future viability. Current efforts of MIA, the Microinsurance Innovations Facility of the ILO, and research by the ProVention Consortium with IIASA and AIDMI are collecting evidence and lessons and providing support to emerging schemes.

### New products: Index Insurance<sup>18</sup>

Index-linked insurance products have recently emerged as an additional tool for transferring risks facing the poor. By conservative estimates, 56 out of 100 people in India are employed directly in agriculture. Through their work, ownership, or support to small farms, many of the 147.9 million rural households in the country depend on satisfactory harvests to provide (directly or indirectly) for their needs<sup>19</sup>.

Indexed insurances are a key step forward specifically for disaster insurance. This is because indexed products have qualities that overcome some of the most significant challenges facing traditional insurance and microinsurance when they are applied to transfer disaster risk.

While index insurance does not actually reduce the risk of a disaster occurring, it should, through proper pricing and design, incentivise clients to reduce their disaster risk. This has so far not been the case with traditional indemnity-based microinsurance. By de-linking losses from payouts by using an independent index, farmers still have incentives to use risk reduction measures in the hopes of saving their crop and yet still collecting an index insurance payment.

Second, de-linking losses from payouts also reduces moral hazard – the threat that policyholders will neglect their insured assets and can even intentionally increase their risk as the insurance payment will cover any losses.

Third, index insurance mechanisms allow a large number of policyholders to be covered with lower administrative costs to the insurance company, thus reducing premiums. This is critical

<sup>17</sup> McCord, 2008

<sup>18</sup> Reynolds and Pandya, forthcoming

<sup>19</sup> UNDP 2007

when the value of assets to be insured is low and administrative costs are more or less the same as for administering policies to middle-class urban dwellers.

Fourth, compared with traditional insurance, adverse selection is reduced because policyholders seldom have more accurate information about the risk in the index than insurers.

Finally, as there is no claim assessment or processing, indexed insurances can provide payment quickly after an adverse weather event – a time when liquidity is critical for affected households.

In summary, indexed insurances:

- have lower transaction costs;
- have no moral hazard;
- have fewer asymmetric information problems and less adverse selection;
- involve simpler contract design and enforcement;
- can more easily transfer covariant risks out of country into international market;
- require no claims; payments are automatic.

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**Annex 1: Glossary of Microinsurance Related Terms<sup>20</sup>**

<b>Term</b>	<b>Definition</b>
Actuary	A person who calculates insurance premiums, reserves, and dividends.
Adverse Selection	Also called anti-selection, the tendency of persons who present a poorer-than-average risk to apply for, or continue, insurance. If not controlled by underwriting, results in higher-than-expected loss levels.
Agent	An insurance company representative who sells and services insurance contracts for the insurer; the intermediary between the insurer and the policyholder.
Beneficiary	The person who receives a life insurance benefit in the event of the policyholder's death.
Claim	A request for payment under the terms of an insurance contract when an insured event occurs.
Commission	The part of an insurance premium paid by the insurer to an agent for his or her services in procuring and servicing the insurance contract.
Covariant Risk	A peril that affects a large number of the policyholders at the same, e.g., an earthquake; or several risks that consistently occur together (at the same time or under the same circumstances).
Cover or Coverage	The scope of protection provided under an insurance contract.
Deductible	Also known as excess, an amount that a policyholder agrees to pay, per claim or per accident, toward the total amount of an insured loss. Insurers use this mechanism to share risk with policyholders and reduce moral hazard.
Fraud	Intentional perversion of truth to induce another to part with something of value.
Insurance	A system under which individuals, businesses, and other entities, in exchange for a monetary payment (a premium), are guaranteed compensation for losses resulting from certain perils under specified conditions.
Market Research	Techniques used to determine a) the strength and characteristics of the demand for insurance, and b) information about insurance and insurance substitutes available in both the formal and informal markets.
Moral Hazard	A risk that occurs when insurance protection creates incentives for individuals to cause the insured event; or a behaviour that increases the likelihood that the event will occur, for instance bad habits such as smoking in the case of health insurance or life insurance.
Policy	The legal document issued by the company to the policyholder that outlines the conditions and terms of the insurance; also called the policy contract or the contract.

<sup>20</sup> Glossary from Churchill et al. 2003

Policyholder	A person or entity that pays a premium to an insurance company in exchange for the coverage provided by an insurance policy.
Premium	The sum paid by a policyholder to keep an insurance policy in force.
Probability	The likelihood that the insured event will occur.
Regulation	Government defined requirements for an insurer, such as minimum capital requirements and necessary expertise; also provides consumer protection through the oversight of insurers, including pricing policies, form design and appropriate sales practices.
Reinsurance	A form of insurance that insurance companies buy for their own protection.
Risk	The chance of loss.
Underwriting	Process of selecting risks for insurance and determining in what amounts and on what terms the insurance company will accept the risk.

**Annex 2: Key Differences between Traditional Insurance and Microinsurance**

<b>Key Differences<sup>21</sup></b>	
<b>Traditional Insurance</b>	<b>Microinsurance</b>
Complex policy document	Simple, easy to understand policy document
Limited eligibility with standard exclusions	Broadly inclusive, with few if any exclusions
Regular premium payments as banking transaction	Premiums accommodate customers' irregular cash flows, paid in cash or with another financial transaction
Usually minimum of 12 months	Period of coverage can be as short as 4 months
Screening requirements may include a medical examination	Any screening requirements would be limited to a declaration of good health
Small and large sums insured	Only small sums insured
Priced based on age/specific risk	Community or group pricing
Agents and brokers are primarily responsible for sales	Distribution channel may manage the entire customer relationship, perhaps including premium collection and claims payment
Market is largely familiar with insurance	Market is largely unfamiliar with insurance

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<sup>21</sup> Tomchinsky, 2008

### **Annex 3: India's Microinsurance History**

*The following is an excerpt from Roth et al. (2007) *The Landscape of Microinsurance in the World's 100 Poorest Countries*.*

The insurance industry, public and private, in India started in the 19th century when the British government set up state-run social protection schemes for its colonial officials. Many of these schemes evolved into the companies that still operate to this day.

In 1956, the Indian government nationalised the life insurance industry. One of the reasons given at the time was a desire to spread insurance more widely. As Prime Minister Nehru noted in parliament, "We require life insurance to spread rapidly over all the country and to bring a measure of security to our people". The government combined 154 insurers and formed the Life Insurance Company of India. Despite Nehru's hopes, in the decades following nationalisation, insurance products continued to be designed primarily for those in formal employment – overwhelmingly men in urban areas. The poor, living mostly on agriculture, were for the most part overlooked by the new companies. There were a few crop insurance schemes run by the state, but generally these reached only a small percentage of poor households.

Though the poor were effectively excluded from insurance markets, at least one significant example of microinsurance stands out, which was to have some impact on the legislation that was to come. The Self-Employed Women's Association recognised the importance of insurance for their low-income members in the early 1990s. Their successes and lessons helped to exemplify the importance of insurance within the low-income market. Their experiences helped to inform government plans in the early 2000s to expand insurance access by fiat to the rural and socially-deprived sectors of the economy.

In the early 2000s, the Indian government liberalised its insurance markets. In part, as means of alleviating fears surrounding foreign insurers, the government forced all new insurers to sell a percentage of their products to the de facto poor. From having almost no access to microinsurance bar the work of CBO insurers and a few NGO insurers, commercial insurers eager to compete in the Indian market were suddenly scrambling over themselves to design and sell microinsurance products. India now has over 130 microinsurance products and reaches many millions of poor clients, through innovative schemes.

Nothing globally has so dramatically changed the face of microinsurance as India's regulatory compulsion. Whether its costs outweigh its benefits remains an unanswered question.

# Facilitator's Note

## 1. Suggestions for Facilitators prior to Training

Although the most effective trainers are able to address the emerging needs of trainees in a flexible manner, the following notes offer a basic outline of activities that TLC facilitators may use to lead trainings. To prepare for training, facilitators may find it useful to:

- Review the Module Learning Objectives listed above,
- Review the Suggested Methods and Activities listed below,
- Assess the anticipated knowledge needs, interests, and constraints of trainees,
- Identify additional potentially effective activities suitable for their particular trainees,
- Review related background literature on Microinsurance in India, this can include but is not limited to the resource material listed at the end of this document and the modules,
  - o Prepare your own notes so that you may convey the relevant information in a way that is comfortable for you.
  - o Do not feel constrained by the information on the slides – they are merely a guide and you may adapted them for your needs
- Prepare materials for the training, including:
  - o Powerpoint or other presentation materials including revisions if desired
  - o Print-outs or any other necessary handouts
  - o Tools and props needed for activities
  - o Rewards or treats to encourage involvement and participation
- Ensure that all arrangements regarding venue are prepared
- Ensure that the training duration is appropriate for material to be covered
- Be familiar with the SWOT analysis tool and how it can be applied ([http://en.wikipedia.org/wiki/SWOT\\_analysis](http://en.wikipedia.org/wiki/SWOT_analysis))

## 2. Facilitator Requirements during Training

**Total Time: Approximately 1hour 30minutes**

**Items and Materials needed:**

- PowerPoint presentation and related projection equipment,
- Print-out of "India's Microinsurance History" from Module 1 Annex 3,
- Whiteboard and marker OR blackboard and chalk,
- Module materials,
- Pens and notepads for participants,



- Your own notes based on those materials,
- Rewards for participation,
- Blank name badges,
- SWOT analysis worksheets

### 3. Suggested Methods and Activities:

#### 3.1 Arrival and Introduction

Arrive with plenty of time available to prepare the room and make sure all materials are ready. When the group is small, many trainers find that arranging the seating in a circle is conducive to open and equal communication.

As the participants arrive, ensure that each has the necessary materials, including module(s) and supplies for note taking. This is also a good time to disseminate the one-page handout of "India's Microinsurance History" for participants to read before the session begins.

When participants have arrived, or at the appropriate time, open the session with an introduction of yourself. You may wish to share your relevant work and life experiences and connection with microinsurance.

Help them feel comfortable with you, in the environment, with the other trainees by showing that attentive participation and questions are a valuable aspect of the training package. If one trainee has a question, it is likely that someone else has the same question.

Next, give a brief overview of the course, especially including the module objectives. You may use the first three slides of the presentation for this. A clear understanding of the objectives will help participants know what to expect from the training. You may also want to hint at the types of activities planned.

Now that everyone has had a peek at what is to come, it is time to meet the trainees. Ask everyone to introduce themselves, including their name, how their work is related to microinsurance, why they attended the course, and what they hope to take away from the session. You may also ask that each rate their current knowledge of microinsurance on a scale of 0 to 10 to get an understanding of their expertise.

Make a list of the things they hope to learn, preferably on a chalk or white marker board. When everyone is introduced, identify which items this course will cover. If they list things beyond the scope of the course try to recommend resources where they may answers.

If the group is small, one good way to introduce everyone is to have each person recall the names of all those that have already introduced themselves. This often helps build an open atmosphere and everyone hears the names several times.

#### 3.2 Course content

##### Activity 1: 15mins

Ask each participant to write down a definition of what microinsurance is and three characteristics that differentiate it from traditional insurance. When they are complete, ask

who wants to share their definition. Write key aspects of their definitions on the board. Ask questions and try to guide the group to definition or an agreed understanding.

Reveal the Powerpoint slide with the definition. Compare this to the definition you identified as a group.

Proceed through the remaining slides in Section I, on What is Microinsurance?

### Activity 2: 15mins

Lead a discussion around the following, or similar questions:

1. What risks do you face on a daily basis?
2. What are the key risks that face people you work with (loss of property, loss of life, etc.). What consequences would arise if these risks occurred, immediately, and in later months and years?
3. Do mainstream insurance providers have products for their risks? Why or why not?

Continue the presentation with Section II, on the Importance of Microinsurance for Pro-poor Disaster Management, and Section III, on Common Microinsurance Products. Ask for a show of hands for those participants that are currently working with each product.

### Activity 3: 10-15mins + trainer presentation time

Have the trainees read the excerpt on "India's Microinsurance History". Lead a discussion on the recent growth of microinsurance products offered by asking the following, or similar, questions:

1. What prevented insurers from offering products to the poor?
2. What change occurred that has spawned a range of new products to service the poor?
3. What factors drove that change?
4. Does anyone know approximately how many low-income individuals are now covered by microinsurance in India? Correct answer is 30+ million.

Continue the presentation with Section IV, on Microinsurance Models and Roles. Emphasise that the changes in Indian insurance regulations discussed in the article have encouraged many new products to be offered through the Partner-agent Model.

### Activity 4: 25mins

Organise the participants into groups of approximately five people. Give each group a particular microinsurance beneficiary or target policyholder group (could be a federation of MFI participants, a trade union of textile workers, or a dairy cooperative. Explain that they are now responsible for developing a microinsurance product to suit their target group. Their first task is to work in their group to develop a process for designing and implementing their product. Tell them they have 15 minutes to:

1. Identify a microinsurance delivery model, from those discussed above.
2. A process map or series of generalised steps that they will follow in the conception and implementation of their product.

3. A list of key relationships that will need to be cultivated for their product to be complete and successful.

When their group work is complete, have each group choose a leader. The leader should explain their choice of microinsurance delivery models and explain the rationale for their choice based on their target group. They should draw their process map on the board and explain the key steps. Finally, they should identify the key relations that they will need to develop.

Continue the presentation by showing the slide under Section V, with the diagram of the Product Development Process. Explain the steps in this process and highlight similarities between this diagram and the process maps created by the trainees.

Ask participants to identify a list of key areas that will be important for microinsurance in the future. Write the list on the board.

Continue the presentation with Section VI, on Issues for the Future.

#### **Activity 5: SWOT Analysis: 20mins**

Hand out the blank SWOT Analysis table. Explain the SWOT Analysis tool to the trainees. Explain that their task is to take their current organisation and fill in the SWOTs for either:

1. Initiating a new microinsurance product for a key constituency or
2. Expanding their current microinsurance product into a new frontier (such as up-scaling to new policyholders, or providing appropriate complementary services).

Finally, they should make a list of actions they can take, based on opportunities listed in the SWOT, if they were to implement their new/revised microinsurance product.

The resulting SWOT Analyses are for them to keep for their own use and application. Encourage them to ask questions in order to really understand and apply the tool. Especially encourage them to take the SWOT tool back to their organisations to discuss with colleagues how it can help them with their current work.

## **4. Presentation Guidelines**

"The following presentation guidelines are intended as a resource that may be adapted for training facilitators that are teaching this module. They may be used to create a visual presentation or handouts for participants."

### **Objectives**

By the end of this module you should be able to:

- Define microinsurance
- Explain the usefulness of insurance as a tool for transferring disaster risk from the poor
- Explain common models of microinsurance
- Determine if microinsurance is suitable for your constituency and partners

- Identify stakeholders in microinsurance provision
- Explain two opportunities in the frontier of microinsurance development in India

### Contents

- I. What is Microinsurance?
- II. Importance of Microinsurance for Pro-Poor Disaster Management
- III. Common Microinsurance Products
- IV. Microinsurance Models and Roles
- V. Basics of Products Design and Provision
- VI. Issues for the Future

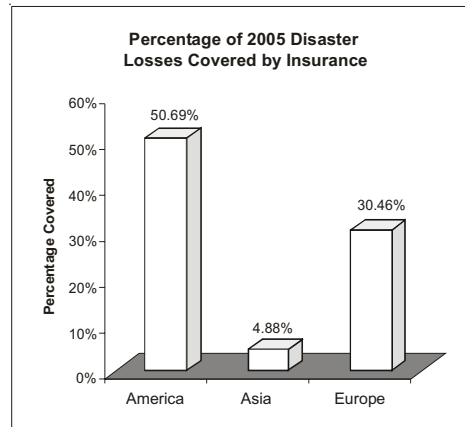
#### I. What is Microinsurance?

- Working definition: “the protection of **low-income** people against specific perils **in exchange for regular premium payments** proportionate to the likelihood and cost of the risk involved”
- Microinsurance is:
  - A risk-pooling product
  - Appropriate for the **low-income market** in terms of cost, terms, coverage, and delivery mechanisms
- Key Differences between Traditional and Microinsurance

Traditional Insurance	Microinsurance
Small and large sums insured	Only small sums insured
Complex policy document	Simple, easy to understand policy document
Agents and brokers are primarily responsible for sales	Distribution channel may manage the entire customer relationship, perhaps including premium collection and claims payment
Market is largely familiar with insurance	Market is largely unfamiliar with insurance
Priced based on age/specific risk	Community or group pricing
Limited eligibility with standard exclusions	Broadly inclusive, with few if any exclusions
Regular premium payments as banking transaction	Premiums accommodate customers' irregular cash flows, paid in cash or with another financial transaction
Usually minimum of 12 months months	Period of coverage can be as short as 4
Screening requirements may include a medical examination	Any screening requirements would be limited to a declaration of good health

## II. Importance of Microinsurance for Pro-Poor Disaster Management

- Disparity of Insured Risks
  - Chart: Indicates lack of asset coverage in Asia (From MunichRe). Still, most is held by the wealthy.
  - Within Asia, 24 percent of deaths due to disasters occurred in India because of its size, population, and vulnerability (From GoI 2002 5YP).
  - In India, poor households more severely affected and lack savings and access to social safety mechanisms.
  - Direct natural disaster losses amount to 2% of India's GDP and up to 12% of central government revenues. Not including informal sector losses (From World Bank).



*Losses to disasters in Asia have significantly less coverage than in America and Europe.*

- Microinsurance, Risk, and the Poor
  - Characteristics of the Insurable Poor: Vulnerable to risks, Often work in the informal economy, Irregular cash flows, Manage risks through myriad of informal means, including social networks, Limited familiarity with formal insurance, May not trust insurance companies
  - Key risks: Death of family member, Natural disasters, Theft or property damage, Illness or injury
  - Microinsurance transfers some of these risks: From poor households to insurance markets and Can result in lower recovery costs for those affected.
- Advantages of MI for Disaster Risk Management
  - Predictable financial resources for recovery,
  - Post-disaster liquidity for continuation of livelihoods,
  - Promote investments in productive assets,
  - Could offer incentive to reduce risks if insurers offer tiered premiums,
  - Could allow for more local decision making about recovery investments than top-down recovery programming seen after 2004 tsunami.

## III. Common Microinsurance Products

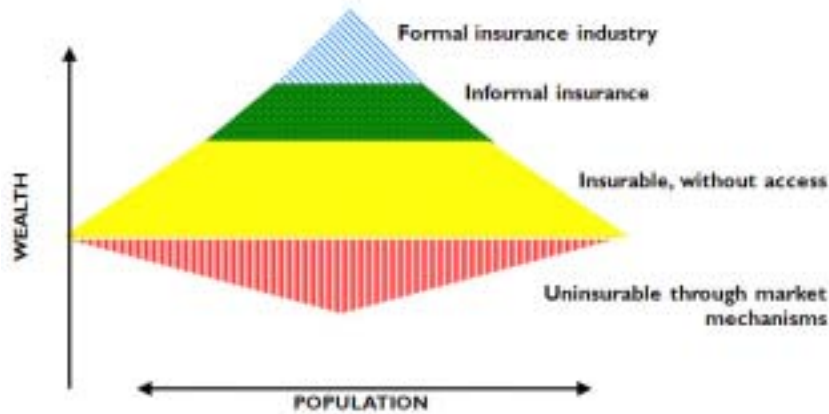
- Life Insurance
  - Covers the policyholder on the event of death and disability.
  - Most widely available insurance product due to simplicity.
  - Typically a low-risk product for provider.

- Health Insurance
  - Covers health care related costs linked to illness, injury and treatment.
  - Complex and depends on access to health care.
- Agriculture Insurance
  - Includes livestock, crop insurance, or weather insurance.
  - Covers against losses due to drought, flood or livestock-affecting epidemics.
- Property and Asset Insurance
  - Covers against damage of property and/or loss of assets.
- Disaster Insurance-
  - Often a package that covers combination of life, health, agriculture, and property assets

#### **IV. Microinsurance Models and Roles**

- Partner - Agent Model
  - Commercial or public insurers together with MFIs or NGOs collaboratively develop the product.
  - Insurer absorbs the risk, and the MFI/NGO markets the product through its established distribution network. This lowers the cost of distribution and thus promotes affordability.
  - Dominant approach to microinsurance in India.
- In-house or Full-service Model
  - An MFI or NGO runs its own insurance scheme for clients
  - Any profit or loss is absorbed by the MFI.
  - No longer common but still exists.
- Community-based Model
  - A group of people or local communities, MFIs, NGOs and/ or cooperatives develop and distribute their own product, manage the risk pool and absorb the risk.
- Provider Model
  - Banks and other MFIS directly offering insurance contracts.
  - Usually coupled with credit to insure against default risk.
  - Used widely in the general insurance market
  - High transaction costs, low ability to pay premiums inhibit use for disasters.

• Who Buys Insurance from Whom?



Source: The Microinsurance Center

• How these Roles Work Together

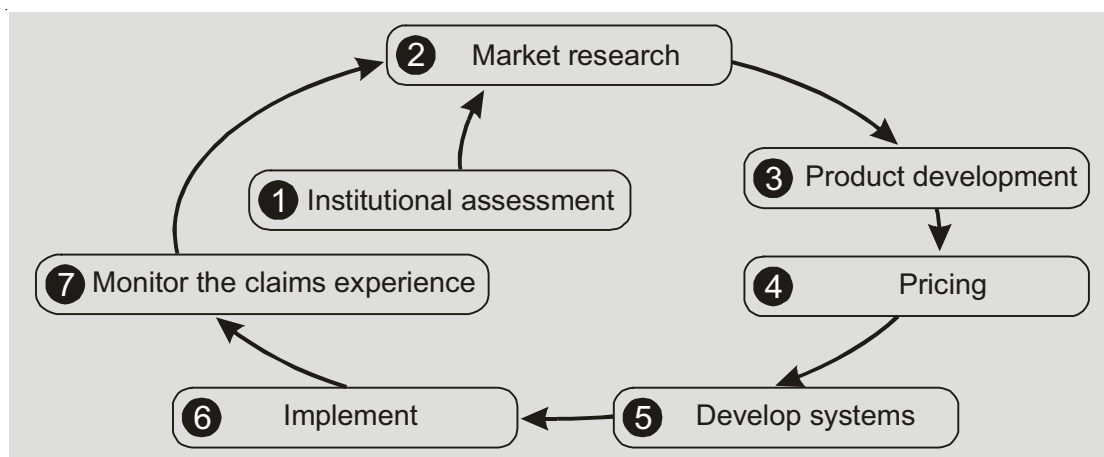
	Reinsurers	Regulated insurers and Un-regulated providers	Delivery channels	Policy-holders
What they do	<ul style="list-style-type: none"> <li>• Can cover partial risk of an insurer</li> <li>• Not usually involved in MI except health and index</li> </ul>	<ul style="list-style-type: none"> <li>• Manage risk</li> <li>• Pay claims</li> <li>• Final say on pricing</li> <li>• Regulatory compliance</li> <li>• Manage controls</li> </ul>	<ul style="list-style-type: none"> <li>• Direct contact with policyholders</li> <li>• Sell insurance</li> <li>• May aid clients with, or settle claims</li> <li>• Collect premiums</li> </ul>	<ul style="list-style-type: none"> <li>• Pay premiums</li> <li>• Make claims</li> <li>• Buy group cover for all members, clients, employees, and others</li> </ul>
Who they are in MI	<ul style="list-style-type: none"> <li>• Examples</li> <li>• Interpolis Re - Mutuals</li> <li>• Swiss Re - India weather index</li> <li>• Munich Re</li> <li>• Partner Re</li> </ul>	<ul style="list-style-type: none"> <li>• Multi-national and domestic commercial insurers</li> <li>• Some Mutuals</li> <li>• CBOs</li> <li>• NGOs</li> <li>• Funeral parlors</li> <li>• Informal groups</li> </ul>	<ul style="list-style-type: none"> <li>• MFIs and banks</li> <li>• CBOs</li> <li>• NGOs</li> <li>• Specialty agents</li> <li>• Employers</li> <li>• Governments</li> <li>• Retailers</li> <li>• Churches</li> </ul>	<ul style="list-style-type: none"> <li>• Individuals</li> <li>• Groups (for clients, members, employees, and others)</li> </ul>
<p>REGULATIONS and SUPERVISION - The foundation of sound consumer protection</p> <p>DONORS - Strengthening the weak spots</p>				

• Stakeholder Opportunities

- Insurers: Profitability, Expansion of risk pool and market
- Delivery channels: Additional income stream, Competitive advantages, More stable clients / members
- Policyholders in the low-income market: Affordable, accessible, responsive products that help reduce risk

## V. Basics of Products Design and Provision

- Intro to the Product Development Process



Source: Churchill et al. (2003)

## VI. Issues for the Future

- Up-Scaling
  - Between 2006 and 2007 alone, the number of low-income people with access to microinsurance grew by 50%.
  - Obstacles to up-scaling: Understanding the market itself to develop appropriate products, Targeted households have little education or experience with insurance and have little trust of companies or their agents.
  - Needs for up-scaling: More client-focused microinsurance products, Market education, Efficient mechanisms to expand policyholder demand and satisfaction assessment tools
- Index Insurance
  - New, and still experimental, tool for insuring the poor
  - Represent a large proportion of the 30+ million covered by microinsurance in India
  - Mechanism Example: Rainfall
  - Indexed products overcome some of the most significant challenges to MI for disaster reduction
    - o Retains incentive for farmers to reduce risk
    - o Can reach large numbers of people
    - o Reduced moral hazard
    - o Reduced adverse selection
    - o No time-consuming claim assessment

## References

UNESCO Training Guide

All Material Listed with Module 1



# Module 2

## Assessing Microinsurance Demand





## Assessing Microinsurance Demand



### Learning Objectives

By the end of this module you should be able to:

- Explain the relevance of effective microinsurance demand assessment
- Identify key factors that influence potential policyholder demand for a product
- Outline a process for assessing demand for microinsurance among your constituency



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### Facilitator's Note

1. Suggestions for Facilitators prior to Training
2. Facilitator Requirements during Training
3. Suggested Methods and Activities
4. Presentation Guidelines

## 2.1 Importance of Proper Demand Assessment

Effective microinsurance products are built to address the needs of the poor. Even organisations that work with the poor on a regular basis will find designing effective products difficult without a suitably comprehensive assessment of the risks communities face and their preferred strategies for addressing this risk.

Conducting a thorough demand assessment prior to product design or implementation will help you address critical questions:

- Should we be involved in microinsurance?
- What types of products should we offer, and to whom?
- How can our product be refined to better address local preferences and capacities?
- Will our product be attractive to others? With what revisions?
- What complementary activities should we pursue to support our MI product?

### 2.1.1 Community Needs and Microinsurance Opportunities

Although the number and variety of microinsurance products available is expanding rapidly, many products available are not suitable for low-income communities or are of low quality<sup>1</sup>. Additionally, some products are mandatory for members of certain groups and some policyholders are unaware that they are covered. Further, many of the products sold in India are only offered to meet regulatory quotas and it is not clear if insurers are dedicated to servicing them.

Demand for microinsurance products is based on two general aspects: the suitability of product supplied and how this product compares with alternative coping systems. Although developing a suitable product requires knowledge of the low-income market that commercial insurers and even NGOs typically lack, a systematic demand assessment can help address this.

Effectively designed products will be both financially viable (suitable for the insurer) and appropriate for the risks that the poor face (suitable for the policyholder). As such, not all eventualities are insurable. Before considering aspects of efficient delivery, the following criteria must be met.

#### Is the Risk Insurable?

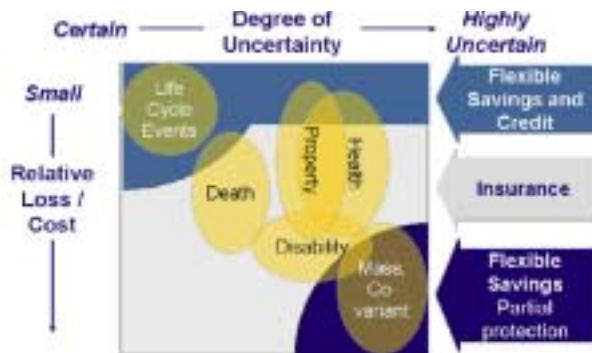
- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• Does the loss occur by chance?</li> <li>• Is the loss definite in time and amount?</li> <li>• Does the loss create significant hardship relative to income?</li> <li>• Are a large number of similar units exposed to the risk?</li> <li>• Is it possible to estimate the possibility of the loss occurring?</li> </ul> | <ul style="list-style-type: none"> <li>• Will the risk pool attract sufficient numbers of clients who are unlikely to present claims (does it meet the criteria for adverse selection)?</li> <li>• Is the loss a genuine loss to the insured (no house, no house insurance)?</li> <li>• Is the loss one that will not be catastrophic to the insurer? Does the same risk affect more than one person or household at a time? Is it idiosyncratic?</li> </ul> |
|--|--|

1 Roth et al. 2007.

**2.1.2 Risks and Related Products**

Microinsurance is one option among several that can be used by the poor to cope with adversity. It is typically effective for moderate anticipated losses. Alternative strategies such as savings and credit are more appropriate for smaller losses. Similarly, microinsurance is not a suitable strategy for catastrophic losses as the premiums would often make the product unaffordable. Catastrophic losses are often excluded through coverage limits.

**Different Risk Management Strategies for Different Risks**

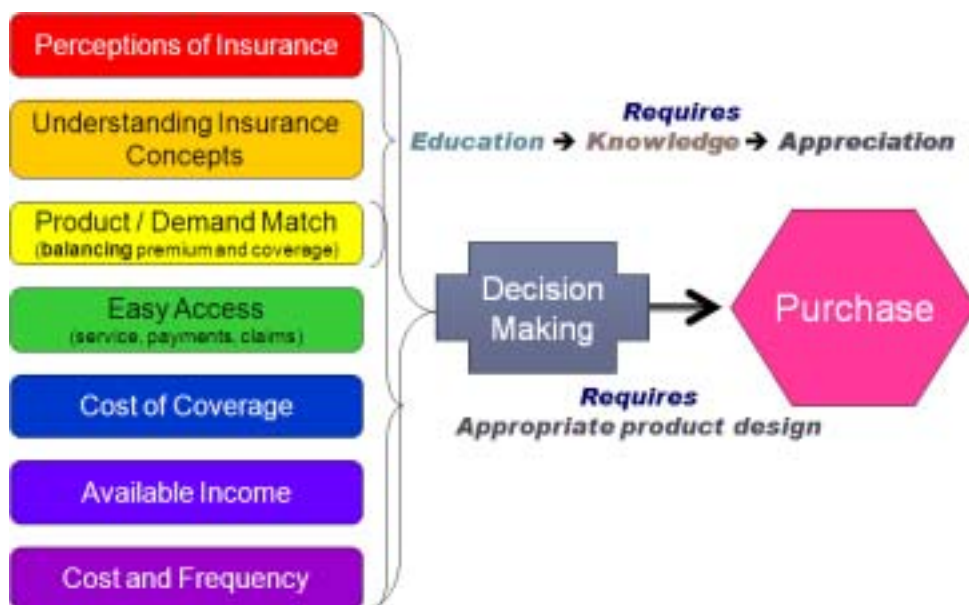


Source: Brown and Churchill. (2000) In Mechler, et al. (2006)

**2.2 Factors Influencing Demand**

The decision to purchase microinsurance will depend on a combination of product appropriateness and product appreciation. The following diagram illustrates the components of product appreciation and appropriateness that are discussed in this section.

**Microinsurance Product Value is Based on Appreciation and Appropriateness**



Source: McCord (2007)

### Appreciation

Purchasing insurance requires giving up something now, a premium for a possible payback in the future. This can be especially difficult for low-income households with very little discretionary income and little experience with commercial insurers. To enter into such an arrangement requires an understanding and positive perception of the value of insurance. Additionally, it requires the policyholder to trust that the agreed amount will be paid if the risk is realised. Experience following the 2004 Indian Ocean tsunami and 2005 South Asia earthquake indicate that communities that have recently experienced disasters may be more likely to purchase insurance than those that have not faced a similar hazard.

### Appropriateness

The second component of community demand relates to the perceived appropriateness of the product for addressing real needs. This is also influenced by the ease of payments and claims procedures, the cost of the policy, and the availability of money to make the regular premium payments.

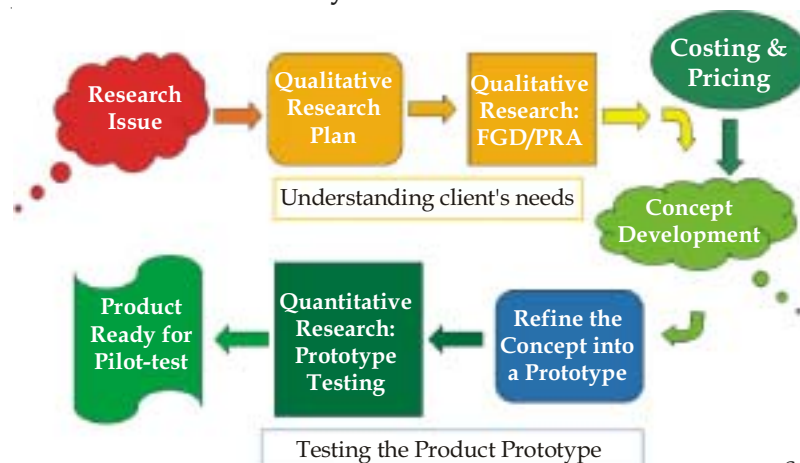
### Enabling Environment

In the case of microinsurance, supply and demand influence each other. Both the appropriateness and the appreciation for the product are influenced by contextual factors that can be influenced by legislation and other stakeholders. In India, the Insurance Regulatory and Development Authority has made servicing the poor a necessity for many commercial insurers. Additionally, factors such as the existence of service or sales taxes on such policies affect the cost-effectiveness of providing products at very low rates. The current service tax of 10.2% might be reduced or lowered to encourage more uptake.

## 2.3 Assessment Process: Developing a Demand Study

This section highlights the key steps involved in designing and conducting an assessment of microinsurance demand. A comprehensive demand assessment will include efforts to understand client needs and a trial of the product prototype that is designed on the preliminary assessment.

### Microinsurance Demand Assessment Cycle



### 2.3.1 Basic Information Needs in Product Conception

During the first phase, critical information to gather will include community risk context and strategies currently employed to address these. Specifically, you will need to gather information on: 1) demographic and geographic characteristics i.e. age, health, location in a flood plane, etc.; 2) economic characteristics i.e. income and expenditure as well as distribution throughout the year; 3) the nature of risks faced; 3) typical life cycle stresses and anticipated expenditure i.e. sending children to school, starting a business, etc.; 4) the extent of impact of anticipated risk events; 5) coping strategies used to address manageable risks i.e. savings, borrowing from moneylenders, etc.; 6) how the community prioritises the risks that they face; and 7) how the community understands and perceives insurance.<sup>2</sup>

### 2.3.2 Basic Information Needs in Product Design and Delivery

During the second phase, research should look at: 1) coverage and exclusions; 2) premiums; 3) methods and timeliness of premium collection; 4) methods of claims processing; 5) the impact that the insurance has on policyholders; 6) changes in understanding and perception of insurance; and 7) level of client satisfaction.

### 2.3.3 Using the Results

Finally, the findings and analysis of the collected information need to be communicated effectively to improve the product and delivery mechanism. You may want to set up a short briefing session to communicate key results with the project team and the insurer and project team. This team meeting can provide a good opportunity to discuss the strengths and weaknesses of the product and possible improvements to delivery.

## References

MicroSave has a wide range of tools developed for designing and implementing microfinance products. With a small amount of adaptation, these tools can be valuable for microinsurance demand assessment and more. They can be accessed at: <http://www.microsave.org/toolkits.asp?ID=14>. Other tools from MicroSave have been developed especially for microinsurance. A useful example of a quantitative demand assessment is available at: [http://www.mfc.org.pl/doc/Demand\\_for\\_Microinsurance\\_in\\_Georgia.doc](http://www.mfc.org.pl/doc/Demand_for_Microinsurance_in_Georgia.doc).

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**Annex 1: Overview of Tools for Microinsurance Demand Assessment<sup>3</sup>**

<b>Tools</b>	<b>Relevant Data Generated</b>
<i>Focus group discussion guide:</i> risk and risk management strategies	<p>Significant risks facing participant households ranked by impact.</p> <p>Economic impacts of specific risks on households.</p> <p>Precautionary strategies used by households to manage risks before they happen.</p> <p>Coping mechanisms used by households to respond to risks.</p> <p>Short and long-run impacts of risk management strategies on household.</p>
<i>Focus group discussion guide:</i> client satisfaction with insurance products (formal and informal)	<p>Assessment of participants' understanding of insurance and how it works.</p> <p>Information on insurance products used by participants.</p> <p>Client perceptions of communications from the insurance provider about the product.</p> <p>Satisfaction with the terms and conditions of the insurance, the claims procedures and outcomes.</p> <p>Recommendations for improving the insurance project.</p>
<i>PRA tool:</i> life cycle risks and coping mechanisms	<p>The major life cycle events which require large sums of cash for participant households.</p> <p>Relative expense or economic impact of life cycle events.</p> <p>Precautionary strategies used by households to manage the economic stress of life cycle events before they happen.</p> <p>Coping mechanisms used by households to respond to the economic stress of life cycle events after they happen.</p> <p>Short and long-run impacts of risk management strategies on households.</p>
<i>PRA tool:</i> seasonality of income, expenditure, savings and credit	<p>Seasonal flows of income and expenditures by month.</p> <p>Sources of income.</p> <p>Demand for savings and credit by month.</p> <p>Events requiring large sums of cash.</p>
<i>PRA tool:</i> seasonality of risks (linked to above)	<p>Seasonal flows of risks and economic stresses by month.</p> <p>Precautionary strategies used by households to manage risks before they happen.</p> <p>Coping mechanisms used by households to respond to specific risks.</p> <p>Short and long-run impacts or risk management strategies on household.</p>
<i>PRA tool:</i> wealth ranking, to look at risks at different levels and responses at different levels	<p>Information on differences in risks and risk management strategies across different wealth levels.</p>

<sup>3</sup> From USAID 2006. Adapted from Microfinance Opportunities and MicroSave.

Tools	Relevant Data Generated
<i>PRA tool</i> : time series of risk	<p>How the community/ participants view change over time in significant risks.</p> <p>What are the most significant risks.</p> <p>How risk management strategies change over time and why.</p>
<i>PRA tool</i> : attribute preference ranking of microinsurance product (link to client satisfaction focus group discussion)	<p>What do participants view as the key attributes of the microinsurance product.</p> <p>What is the relative importance of each attribute.</p> <p>How satisfied are the participants with each attribute of the insurance product.</p> <p>Recommendations for improving the product attributes.</p>
<i>Individual interview guide</i> : load, savings, and insurance use	<p>How an individual has used savings, loans and insurance to manage risk and economic stresses.</p> <p>The effectiveness of their financial services for meeting the individual's risk management needs.</p> <p>The evolution of an individual's risk management strategies over time.</p>
<i>Mini survey</i> : client satisfaction with formal and informal insurance products	<p>Assessment of participants' understanding of insurance and how it works.</p> <p>Information on insurance products used by participants including: premium amount, timing of payment, method of payment, claims procedures, and impact of claim.</p> <p>Client perceptions of communications from the insurance provider about the product.</p> <p>Satisfaction with the terms and conditions of the insurance product and the claims procedures and outcomes.</p> <p>Recommendations for improving the insurance product.</p>
<i>Case study format</i> : Study of informal insurance	<p>Purpose of the informal insurance scheme.</p> <p>Risks covered</p> <p>Size of group and characteristics of group members.</p> <p>Criteria/conditions for membership.</p> <p>Costs of participation.</p> <p>Frequency of contributions.</p> <p>Benefits of membership.</p> <p>Criteria and process for payout.</p> <p>Coverage, timeliness and accessibility of payout.</p> <p>Important features of the insurance scheme.</p> <p>Complementary loss management strategies used by the group members.</p>

# Facilitator's Note

## 1. Suggestions for Facilitators prior to Training

Although the most effective trainers are able to address the emerging needs of trainees in a flexible manner, the following notes offer a basic outline of activities that TLC facilitators may use to lead trainings. To prepare for training, facilitators may find it useful to:

- Review the Module Learning Objectives listed above,
- Review the Suggested Methods and Activities listed below,
- Assess the anticipated knowledge needs, interests, and constraints of trainees,
- Identify additional potentially effective activities suitable for their particular trainees,
- Review related background literature on Microinsurance and product development in India, this can include but is not limited to the resource material listed at the end of this document and the modules,
  - o Prepare your own notes so that you may convey the relevant information in a way that is comfortable for you.
  - o Do not feel constrained by the information on the slides – they are merely a guide and you may adapted them for your needs
- Prepare materials for the training, including:
  - o Powerpoint or other presentation materials including revisions if desired
  - o Print-outs or any other necessary handouts
  - o Tools and props needed for activities
  - o Rewards or treats to encourage involvement and participation
- Ensure that all arrangements regarding venue are prepared
- Ensure that the training duration is appropriate for material to be covered

If this module is combined with others in the Microinsurance Development Series, the trainer may skip the introduction activities and continue with the activities relating to the course content directly.

## 2. Facilitator Requirements during Training

**Total Time:** Approximately 1hour 30minutes

### Items and Materials needed:

- PowerPoint presentation and related projection equipment,
- Whiteboard and marker OR blackboard and chalk,
- Module materials,
- Pens and notepads for participants,

- Your own notes based on those materials,
- Rewards for participation,
- Blank name badges,

### 3. Suggested Methods and Activities:

#### 3.1 Arrival and Introduction

Arrive with plenty of time available to prepare the room and make sure all materials are ready. When the group is small, many trainers find that arranging the seating in a circle is conducive to open and equal communication.

As the participants arrive, ensure that each has the necessary materials, including module(s) and supplies for note taking. When participants have arrived, or at the appropriate time, open the session with an introduction of yourself. You may wish to share your relevant work and life experiences and connection with microinsurance.

Help them feel comfortable with you, in the environment, with the other trainees by showing that attentive participation and questions are a valuable aspect of the training package. If one trainee has a question, it is likely that someone else has the same question.

Next, give a brief overview of the course, especially including the module objectives. You may use the first slides of the presentation for this. A clear understanding of the objectives will help participants know what to expect from the training. You may also want to hint at the types of activities planned.

Now that everyone has had a peek at what is to come, it is time to meet the trainees. Ask everyone to introduce themselves, including their name, how their work is related to microinsurance, why they attended the course, and what they hope to take away from the day's session. You may also ask that each rate their current knowledge of microinsurance and product development on a scale of 0 to 10 to get an understanding of their expertise.

Make a list of the things they hope to learn, preferably on a chalk or white marker board. When everyone is introduced, identify which items this course will cover. If they list things beyond the scope of the course try to recommend resources where they may answers.

If the group is small, one good way to introduce everyone is to have each person recall the names of all those that have already introduced themselves. This often helps build an open atmosphere and everyone hears the names several times.

#### 3.2 Course content

##### Activity 1: 15mins

(Activity #1 is useful for any microinsurance training. If this module is used in combination with the introductory module on microinsurance, you will probably not want to repeat this activity and will skip to Activity 2.)

Ask each participant to write down a definition of what microinsurance is and three characteristics that differentiate it from traditional insurance. When they are complete, ask who wants to share their definition. Write key aspects of their definitions on the board. Ask questions and try to guide the group to definition or an agreed understanding.

Then share the following definition:

"the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved"

### Activity 2: 15mins

Initiate a discussion with the participants on the importance of building a policy to fit specific community risk management needs. Organise the participants into three groups i.e. community, NGO/service provider, and insurance company for a role-play if time allows. Remember, participants love role-plays and it always take more time than intended. Encourage the NGO/service provider group to facilitate discussion between the remaining two groups to understand expectations from each other. This exercise will also help understand and clarify role of the NGO/service provider.

### Activity 3: 10-15mins + trainer presentation time

Organise the participants into groups of about five people. Now designate each group as either "Demand-side" or "Supply-side". Have each group discuss together and make a list of characteristics that would affect decision-making on their side. For example, those on the demand side may list "appropriateness for my needs" or "affordability" as desirable characteristics, while those on the supply side may list "potential profitability", and "simplicity of administration".

Divide the marker board into two sections: Supply, and Demand. After they have made their lists, have them choose a leader from their group to share their characteristics by writing them on the board under the correct side. Have them explain why they chose the characteristics that they did. Ask probing questions that will challenge them to include the following factors:

Demand	Supply <sup>4</sup>
Perceptions of insurance	Similar units exposed to the same risk
Understanding of insurance concepts	Limited policyholder control over insured event
Product/ Demand match	Existence of insurable interest
Ease of access	Losses determinable and measurable
Cost of coverage	Losses are not catastrophic
Availability of income	Chance of loss is calculable
Cost and frequency	

<sup>4</sup> A full explanation of these is given in Brown and Churchill (2000).

## 4. Presentation Guidelines

"The following presentation guidelines are intended as a resource that may be adapted for training facilitators that are teaching this module. They may be used to create a visual presentation or handouts for participants."

### Objectives

By the end of this module you should be able to:

- Explain the relevance and process of effective microinsurance demand assessment
- Identify key factors that influence potential policyholder demand for a product
- Outline a process for assessing demand for microinsurance among your constituency

### Contents

- I. Importance of Proper Demand Assessment
- II. Factors Influencing Demand
- III. Assessment Process: Developing a Demand Study

#### I. Importance of Proper Demand Assessment

- What Demand Assessment Can Do

Help you answer key questions:

- Should we become involved in microinsurance?
- What types of products should we offer, to whom?
- How can our product be refined to better address local preferences and capacities?
- Will our product be attractive to others? With what revisions?
- What complementary activities should we pursue to support our MI product?

#### Addressing Community Needs

- Many products available are not suitable for low-income communities or are of low quality.
- Some products are mandatory or quota driven (most in India),
- Demand is based on:
  - Suitability of what is supplied and
  - Comparison of this with alternative coping systems.
- Developing a suitable product requires knowledge of the low-income market that commercial insurers and even NGOs typically lack.
- A systematic demand assessment can help address this.

#### II. Factors Influencing Demand

Understanding Low-income Households

- Factors affecting demand: Knowledge of risks, Affordability of product, Supply of suitable products, Trust of insurer and intermediary, Recent experience with disasters.

### **Creating an Enabling Environment**

- India's IRDA promotes investment in MI (sustainable?)
- Taxing premiums makes policies less affordable
- Forming a microinsurance network for: Sharing lessons, Spreading awareness, Developing related tools, Advocacy

### **III. Assessment Process: Developing a Demand Study**

#### Basic Information Needs in Product Conception

- Demographic and geographic characteristics of target market,
- Economic characteristics of the target market,
- Nature of risks,
- Life cycle stresses,
- Impact of risk events,
- Coping strategies to protect against managed risks,
- Priority risks by target market,
- Perception and understanding of insurance

#### **Basic Information Needs in Product Design and Delivery**

Find the balance between client desire and efficient:

- Coverage and exclusions,
- Premiums,
- Premium collection,
- Claims processing,
- Impact of insurance,
- Perception and understanding of insurance,
- Client satisfaction

### **Demand Research Planning**

- Choose information sources:
  - Primary: surveys and interviews with policyholders and insurers; may be costly but may be accurate and adaptable
  - Secondary: datasets from insurers, published studies; less costly but may not suit information needs
- Choose methods
- Choose sample (may include):
  - People that face risks similar to your target population,
  - Members of groups that may offer MI,
- Prepare interview sheets and matrix for summarising key points.

**Using the Results**

- Communicate key results with the insurer and project team
- Assess the feasibility of:
  - Various MI products that may suit community needs
  - Delivery mechanisms available
  - Different premiums that may be charged
- Results of these analyses will form the basis of a product to pilot with partners.

**References**

All materials listed in training Module 2.

Information on SWOT Analysis can be found at: [http://en.wikipedia.org/wiki/SWOT\\_analysis](http://en.wikipedia.org/wiki/SWOT_analysis).

UNESCO. 2004. Training Guide and Training Techniques. Available at: <http://unesdoc.unesco.org/images/0013/001356/135603e.pdf>.

Brown, W. and Churchill, C. 2000. Insurance provision in low-income communities: Part 2: Initial lessons from microinsurance experiments for the poor.

### **Useful Additional Resources (Solution Exchange India <http://www.solutionexchange-un.net.in>)**

Consolidated Replies on Micro insurance for disaster risk reduction:

1. Disaster Risk Insurance for Vulnerable Communities - Experiences; Examples. From Thiagu Ranganathan, Center for Insurance and Risk Management, Institute for Financial Management Research, Chennai.  
Available at: <http://www.solutionexchange-un.net.in/mf/cr/cr-se-mf-drm-25070701.pdf>  
*Discusses Disaster Risk Insurance Schemes for Vulnerable Communities and insights on developing appropriate risk hedging mechanisms for long term risk hedging in Indian context.*
2. Microfinance and Livelihood Support Projects in Disaster Affected Localities - Experiences; Examples.  
Available at <http://www.solutionexchange-un.net.in/mf/cr/cr-se-mf-drm-050608.pdf>  
*Shares experiences for creating sustainable systems for planning, implementation and finance of 'Fast Track' livelihood promotion projects in disaster affected areas.*
3. Microfinance through Urban Local Bodies for Disaster Preparedness and Poverty Alleviation; Experiences, Advice.  
Available at: <http://www.solutionexchange-un.net.in/mf/cr/cr-se-mf-drm-18070801.pdf>  
*Shares experiences of microfinance for disaster preparedness and poverty alleviation through ULBs; also enumerates possibilities and challenges for linkages with financial institutions.*



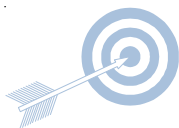
# Module 3

## Guidelines for Developing Community-driven Microinsurance Products





# Guidelines for Developing Community-driven Microinsurance Products



## Learning Objectives

By the end of this module you should be able to:

- Explain the stages of microinsurance programme implementation
- Define typical microinsurance activities and responsibilities
- Explain effective risk transfer strategies for common risks
- Explain strategies of identifying an insurance partner
- Identify central aspects of insurance marketing
- Outline a process for a microinsurance development with your constituents



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## Facilitator's Note

1. Suggestions for Facilitators prior to Training
2. Facilitator Requirements during Training
3. Suggested Methods and Activities
4. Presentation Guidelines

### 3.1 Concepts for Product Development

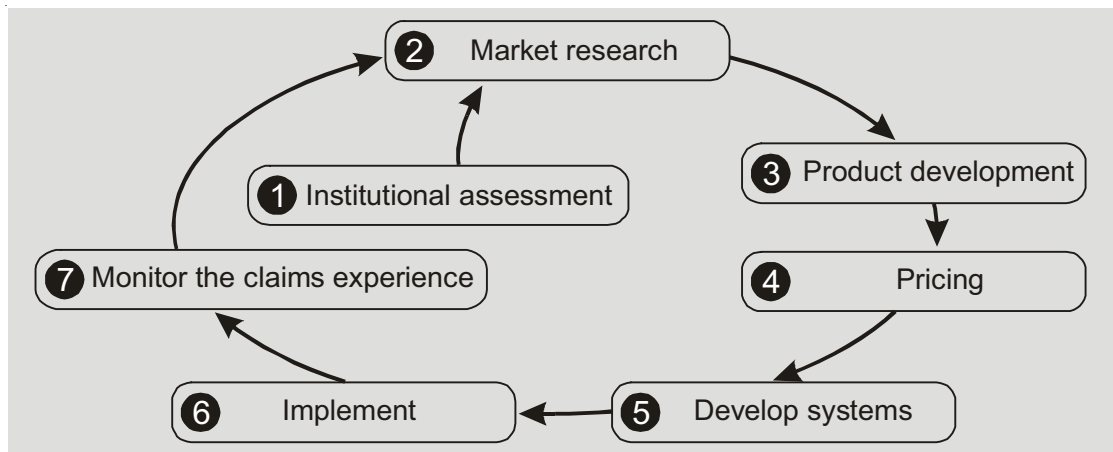
#### 3.1.1 Common Challenges in Product Design

Despite the growth of opportunities for microinsurance provision, several challenges inhibit the spread of this risk management product from reaching even more households. Currently, most products offered cover only the lives of the policyholders. While important, loss of life is only one of several risks facing the poor. A greater diversity of products will help better meet special needs of the poor. Developing a product that can be disseminated and serviced at an extremely low cost is an additional challenge. There is an inherent trade-off between suitably customised products that meet specific needs and those that can be efficiently designed for provision to millions. The current low level of insurance awareness and experience among the low-income market inhibits product provision. Additionally, developing the social and physical infrastructure for microinsurance relationships and delivery is a slow process, often involving collaboration between government, NGOs and the private sector.

#### 3.1.2 Addressing Challenges through Systematic Product Development

Following a systematic process for developing microinsurance products offers several benefits. Foremost, a well planned process helps the insurer and intermediary offer products that address client needs. Second, it helps to prepare the institution(s) to develop necessary systems and to offer products effectively. Third, it minimises the likelihood of product failure. Finally, it helps improve policyholder satisfaction and retention over the course of the product offering.

The Microinsurance Product Development Cycle



Source: Churchill et al. (2003)

### 3.2 The Product Development Process

#### 3.2.1 Should we be Involved?

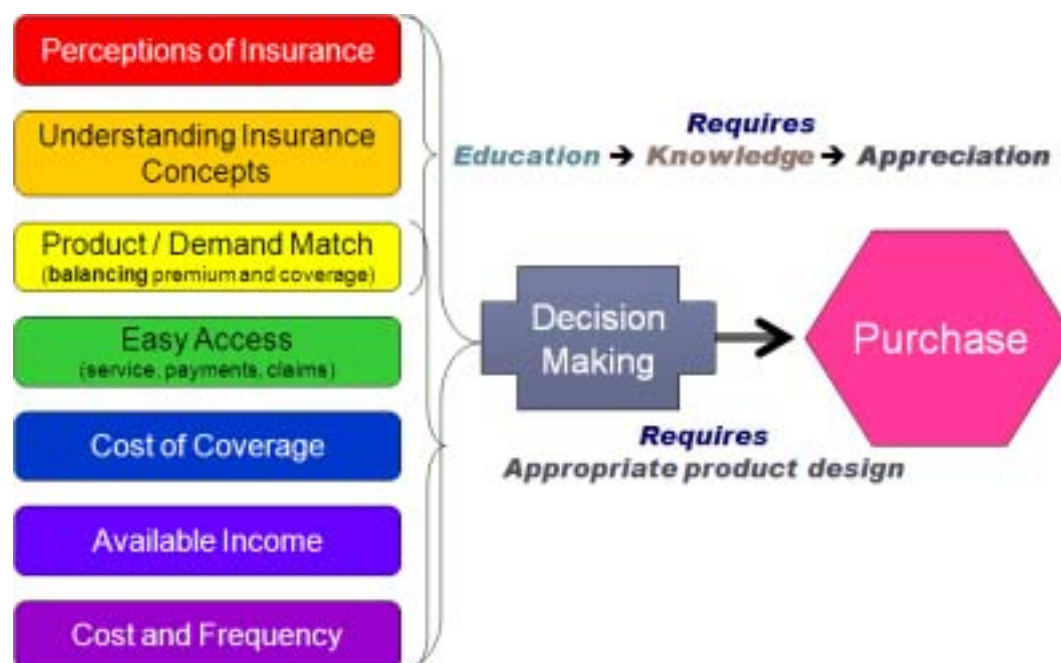
Recognising whether or not you should consider developing a product is the first step. If there is a potential market for microinsurance among your constituency then you should pursue an insurer to co-develop and underwrite the product. If you find that there is no interest among your constituency for insurance then you should consider alternative strategies for managing risk.

### 3.2.2 Understanding the Key Issues: Demand and Supply

#### Demand-related Factors<sup>1</sup>

The decision to purchase microinsurance will depend on a combination of product appropriateness and product appreciation. The following diagram illustrates the components of product appreciation and appropriateness that are discussed in this section.

#### Microinsurance Product Value is Based on Appreciation and Appropriateness



Source: McCord (2007)

#### Appreciation

Purchasing insurance requires giving up something now, a premium for a possible payback in the future. This can be especially difficult for low-income households with very little discretionary income and little experience with commercial insurers. To enter into such an arrangement requires an understanding and positive perception of the value of insurance. Additionally, it requires the policyholder to trust that the agreed amount will be paid if the risk is realised. Experience following the 2004 Indian Ocean tsunami and 2005 South Asia earthquake indicate that communities that have recently experienced disasters may be more likely to purchase insurance than those that have not faced a similar hazard.

#### Appropriateness

The second component of community demand relates to the perceived appropriateness of the product for addressing real needs. This is also influenced by the ease of payments and claims procedures, the cost of the policy, and the availability of money to make the regular premium payments.

<sup>1</sup> Module 2 in the Microinsurance Development Series, "Assessing Microinsurance Demand", is devoted exclusively to understanding this topic.

### **Enabling Environment**

In the case of microinsurance, supply and demand influence each other. Both the appropriateness and the appreciation for the product are influenced by contextual factors that can be influenced by legislation and other stakeholders. In India, the Insurance Regulatory and Development Authority has made servicing the poor a necessity for many commercial insurers. Additionally, factors such as the existence of service or sales taxes on such policies affect the cost-effectiveness of providing products at very low rates. The current service tax of 10.2% might be reduced or lowered to encourage more uptake.

### **Supply-related Factors**

The supply side development of your microinsurance product will be based on your identification of: 1) relevant products that suit your clients' needs; 2) relevant delivery channels; 3) potential mechanisms to service claims that will be made; and 4) environmental opportunities and threats that you will need to manage. Some of these factors may be influenced by the partner that you choose to underwrite your policy. Choosing an insurer is an important process. You should contact several companies to see which relationships are most mutually beneficial<sup>2</sup>.

### **3.2.3 Product Development**

Once you have assessed the demand for related risk management strategies among the community, you will begin to develop (or probably co-develop) your policy. This technical process will require an actuary's expertise. Although the specific pricing calculations will be conducted by the actuary, input from your demand assessment and knowledge of the target community will be of assistance. The insurer will want to look at the common risks faced by members i.e. sickness, disability, death, loss of assets. They will also consider the probability of occurrence i.e. percentage of those covered to be affected each year as well as the average financial payout for occurrence of each risk.

### **3.2.4 Systems Development**

#### **Marketing, Distribution, Premium Collection and Claim Processing**

Microinsurance needs to be sold. Considering low levels of product awareness and the need to implement products at very low overhead mean that marketing is both necessary and difficult. One division of labour that has been successful in India is for the commercial insurer to use existing design and printing facilities to create small fliers for the microinsurance products. The leg-work of distributing and explaining the policies can then be done by the intermediary at the same time they meet with their constituents in the course of their ongoing work. Similarly, the intermediaries are typically responsible for collecting premiums and processing claims.

Early in the product design phase, Terms of Reference can be shared between partners to help assign responsibilities for the most important groups of foreseeable tasks.

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<sup>2</sup> Annex 1 includes a list of questions that you should consider while making this important decision.

<b>Roles and Responsibilities<sup>3</sup></b>		
<b>Preparatory Activities</b>	<b>Front Office Activities</b>	<b>Back Office and Management Operations</b>
<ul style="list-style-type: none"> <li>• Initial market research</li> <li>• Product design</li> <li>• Risk analysis</li> <li>• Pricing</li> <li>• Training staff on insurance concepts</li> <li>• Testing</li> <li>• Contract preparation</li> <li>• Establishing the framework of the administrative system</li> </ul>	<ul style="list-style-type: none"> <li>• Marketing and sales</li> <li>• Assisting clients with contracts (designation of beneficiaries, understanding the policy)</li> <li>• Client monitoring and verification</li> <li>• Claims application completion assistance</li> <li>• Premium collection</li> <li>• Claims disbursement (final disbursement to beneficiary)</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing market research and feedback</li> <li>• Claims review and assessment</li> <li>• Processing of applications, payments and claims</li> <li>• Capital mobilisation</li> <li>• Internal audit</li> <li>• Reinsurance</li> <li>• Conflict resolution</li> <li>• Statutory obligations (e.g., reporting)</li> <li>• Legal issues</li> </ul>

### 3.2.5 Piloting

After the product is designed, a pilot phase will help identify and work out some of the challenges in the devised scheme. Pilot phases usually last 1-3 cycles of the product. A thorough multi-partner review should be conducted during this period to assess the market acceptance, the financial viability, the effectiveness of developed systems, and additional opportunities. ADA<sup>4</sup> has developed a set of quantitative indicators that can be used to assist the evaluation of pilot or up-scaled microinsurance products.

A training programme for key staff on the product as well as discussing frequently asked questions will help to ensure a more efficient pilot experience. Beyond field staff, exposing project managers, supervisors, and directors to other international microinsurance efforts will promote discussion and help identify additional opportunities.

### 3.2.6 Rollout

The final stage in the product development cycle is the rollout or up-scaling of the scheme that has been improved since the pilot. As early as the first cycle, project managers should identify ways to reduce any remaining subsidies so that the product can be self-sustaining as rapidly as possible. This may include reduced dependence on intermediaries for service provision as the clients become more familiar with using microinsurance products. If the product is managed well and continues to meet community needs, opportunities will come for expansion through infrastructure and increasingly qualified personnel. Continued review and revision will help keeping the fine balance to make the scheme profitable and continue to satisfy clients.

<sup>3</sup> Churchill et al. 2003

<sup>4</sup> See Appui au Développement Autonome. (2006).

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**Annex 1: Due Diligence Checklist for Identifying an Insurance Provider<sup>6</sup>**

Questions	What an MFI Should Look For
What is the reputation of the insurance provider?	It should be a strong institution that pays claims on time. Check with policyholders to see if they have had a positive experience.
How is the insurer currently financed?	The insurer should be financed from its earnings, and it should have a stable, conservative asset portfolio.
What is the claims experience of the insurer and its history of claims payouts?	They should pay most claims within a month and be willing to guarantee a fast turnaround (within two weeks guaranteed with an effort to pay within one week) on claims from MFI clients. The MFI should track this once a relationship is finalised.
How interested is the insurer in serving the low-income market?	They should not only express interest but also have examples of current work with this market or at least examples of efforts to work with this market.
Will the insurer adjust its products to suit the preferences of the poor?	They will likely need to reduce the coverage, reduce the price proportionately, and even adjust some procedures to facilitate the transactions between the MFI and the insurer.
Is the insurer willing to make a medium- or long-term commitment to the MFI?	This type of relationship will take time to mature. If the insurer is not willing to make a commitment for at least three years, it is not worth the MFI entering the arrangement. Note: the insurer is not tied to the original terms of the insurance for that period, just to continue to work with the MFI and its clients.
Is the insurer willing to pay a commission to the MFI for performing the agent role?	On short-term group life business, insurers typically pay an agent five to twenty percent of the premium. The MFI should get a substantial portion of that amount.
Are there issues related to regulatory compliance by the insurer?	An MFI should review the insurer's annual report and discuss its regulatory compliance with the insurance commission. Some insurance companies employ an ombudsman to interact with the public. If one is available, the MFI should discuss with her issues related to regulatory compliance and common customer complaints.
Will the insurer give the MFI responsibility for verifying claims?	It is not recommended for the insurer to verify claims. The two partners should have a written understanding regarding what proof the insurer requires. The agreed documentation should be accessible to the poor, yet conclusive.
Can the insurer minimise the number of exclusions without jeopardising the sustainability of the plan?	Generally, MFIs have difficulty informing clients about complex products. Insurance will be the same. Not only will MFIs have to explain the concept of insurance (risk pooling), but they will also have to help clients understand the product. The simpler the product, the easier it will be to sell and administer the product.

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<sup>6</sup> AIDMI, 2006

# Facilitator's Note

## 1. Suggestions for Facilitators prior to Training

Although the most effective trainers are able to address the emerging needs of trainees in a flexible manner, the following notes offer a basic outline of activities that TLC facilitators may use to lead trainings. To prepare for training, facilitators may find it useful to:

- Review the Module Learning Objectives listed above,
- Review the Suggested Methods and Activities listed below,
- Assess the anticipated knowledge needs, interests, and constraints of trainees,
- Identify additional potentially effective activities suitable for their particular trainees,
- Review related background literature on Microinsurance and product development in India, this can include but is not limited to the resource material listed at the end of this document and the modules,
  - o Prepare your own notes so that you may convey the relevant information in a way that is comfortable for you.
  - o Do not feel constrained by the information on the slides – they are merely a guide and you may adapted them for your needs
- Prepare materials for the training, including:
  - o Powerpoint or other presentation materials including revisions if desired
  - o Print-outs or any other necessary handouts
  - o Tools and props needed for activities
  - o Rewards or treats to encourage involvement and participation
- Ensure that all arrangements regarding venue are prepared
- Ensure that the training duration is appropriate for material to be covered
- Be familiar with the SWOT analysis tool and how it can be applied ([http://en.wikipedia.org/wiki/SWOT\\_analysis](http://en.wikipedia.org/wiki/SWOT_analysis))

If this module is combined with others in the Microinsurance Development Series, the trainer may skip the introduction activities and continue with the activities relating to the course content directly.

## 2. Facilitator Requirements during Training

**Total Time:** Approximately 1hour 30minutes

**Items and Materials needed:**

- PowerPoint presentation and related projection equipment,
- Whiteboard and marker OR blackboard and chalk,

- Module materials,
- Pens and notepads for participants,
- Your own notes based on those materials,
- Rewards for participation,
- Blank name badges,
- SWOT analysis worksheets

### **3. Suggested Methods and Activities**

#### **3.1 Arrival and Introduction**

Arrive with plenty of time available to prepare the room and make sure all materials are ready. When the group is small, many trainers find that arranging the seating in a circle is conducive to open and equal communication.

As the participants arrive, ensure that each has the necessary materials, including module(s) and supplies for note taking.

When participants have arrived, or at the appropriate time, open the session with an introduction of yourself. You may wish to share your relevant work and life experiences and connection with microinsurance.

Help them feel comfortable with you, in the environment, with the other trainees by showing that attentive participation and questions are a valuable aspect of the training package. If one trainee has a question, it is likely that someone else has the same question.

Next, give a brief overview of the course, especially including the module objectives. You may use the first slides of the presentation for this. A clear understanding of the objectives will help participants know what to expect from the training. You may also want to hint at the types of activities planned.

Now that everyone has had a peek at what is to come, it is time to meet the trainees. Ask everyone to introduce themselves, including their name, how their work is related to microinsurance, why they attended the course, and what they hope to take away from the day's session. You may also ask that each rate their current knowledge of microinsurance and product development on a scale of 0 to 10 to get an understanding of their expertise.

Make a list of the things they hope to learn, preferably on a chalk or white marker board. When everyone is introduced, identify which items this course will cover. If they list things beyond the scope of the course try to recommend resources where they may find answers.

If the group is small, one good way to introduce everyone is to have each person recall the names of all those that have already introduced themselves. This often helps build an open atmosphere and everyone hears the names several times.

### 3.2 Course content

#### Activity 1: 15mins

(Activity #1 is useful for any microinsurance training. If this module is used in combination with the introductory module on microinsurance, you will probably not want to repeat this activity and will skip to Activity 2.)

Ask each participant to write down a definition of what microinsurance is and three characteristics that differentiate it from traditional insurance. When they are complete, ask who wants to share their definition. Write key aspects of their definitions on the board. Ask questions and try to guide the group to definition or an agreed understanding.

Then share the following definition:

"the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved"

#### Activity 2: 15mins

Ask each participant to consider why making effective insurance cover for the low-income market is difficult. Have them write down share key current challenges related to the designing effective. Have them share their ideas with the group and write down the issues they identify and organise them around key areas that you choose: i.e. pricing, developing relationships, etc.

When the list is complete, reveal the Powerpoint slide on "Common Challenges in Product Design". Compare the issues identified here with those listed by the class, discussing any differences.

Continue with the subsequent slide, explaining the benefits of using a systematic approach for product development.

#### Activity 3: 20mins

The point of this activity is to have participants understand that microinsurance may not be appropriate for all organisations and communities. Rather, that it may be one component of

Risk	Generally microinsurable?	Reason
Accidental death of a family member,	Yes	<ul style="list-style-type: none"> <li>• Mostly unpredictable</li> <li>• Many people face this risk</li> <li>• Easy to validate</li> <li>• Premiums are typically affordable</li> </ul>
Loss of own property to a flood,	Yes	<ul style="list-style-type: none"> <li>• Mostly unpredictable</li> <li>• Many people face this risk</li> <li>• Easy to validate</li> <li>• Premiums are typically affordable</li> </ul>
Loss of neighbour's property to a flood,	No	The policyholder would have little interest in avoiding the event but could benefit if it happened
Poor sales for a vendor during a particular week	Not usually	<ul style="list-style-type: none"> <li>• Difficult to measure</li> <li>• Costly to investigate for low amount</li> </ul>

a risk management package that may include other community strategies such as savings and credit or vocational training to diversify livelihood risks.

One by one, list the risks in the following table. Don't share the second and third columns with them yet! Ask trainees to identify what strategies may be used to address the risk, and specifically if microinsurance is appropriate for addressing the particular risk among the poor.

Explain that the insurance policy depends on a balance of supply and demand. Insurers would not supply a policy that is grossly unaffordable for them. Likewise, there would be no community demand for inappropriate or expensive policies.

Continue the presentation on "Understanding Supply and Demand" and continue through the end of section II, on "The Product Development Process".

#### **Activity 4: 25mins**

Organise the participants into new groups of approximately five people. Each is an established NGO. Give each group a particular microinsurance beneficiary or target policyholder group (could be a federation of MFI participants, a trade union of textile workers, or a dairy cooperative. Explain that they are now responsible for developing a microinsurance product to suit their target group. Their first task is to work in their group to develop a process for designing and implementing their product. Tell them they have 15 minutes to:

1. Identify a microinsurance delivery model, from those discussed above.
2. A process map or series of steps that they will follow in the conception and implementation of their product. This should be based on the processes they've learned today and include details on activities they will conduct.
3. A list of key relationships that will need to be cultivated for their product to be complete and successful.

When their group work is complete, have each group choose a leader. The leader should explain their choice of microinsurance delivery models and explain the rationale for their choice based on their target group. They should draw their process map on the board and explain the key activities they will perform under each step. Finally, they should identify the key relations that they will need to develop.

Now, complete the Powerpoint presentation with Section III.

#### **Activity 5: SWOT Analysis: 20mins**

This final project should be done when presentation and all other questions and discussions have run their course.

Hand out the blank SWOT Analysis table. Explain the SWOT Analysis tool to the trainees. Explain that their task is to choose two of the main steps in the microinsurance development process discussed today (i.e. institutional assessment, market research, product development, pricing, development of systems, implementation, and monitoring). They should take two of these steps and fill in two SWOTs for their current organisation's strengths and weaknesses in working on these steps.

Finally, they should make a list of actions they can take, based on opportunities listed in the SWOT, if they were to develop a new microinsurance product.

The resulting SWOT Analyses are for them to keep for their own use and application.

Encourage them to ask questions in order to really understand and apply the tool.

Especially encourage them to take the SWOT tool back to their organisations to discuss with colleagues how it can help them with their current work.

#### 4. Presentation Guidelines

"The following presentation guidelines are intended as a resource that may be adapted for training facilitators that are teaching this module. They may be used to create a visual presentation or handouts for participants."

##### Objectives

By the end of this module you should be able to:

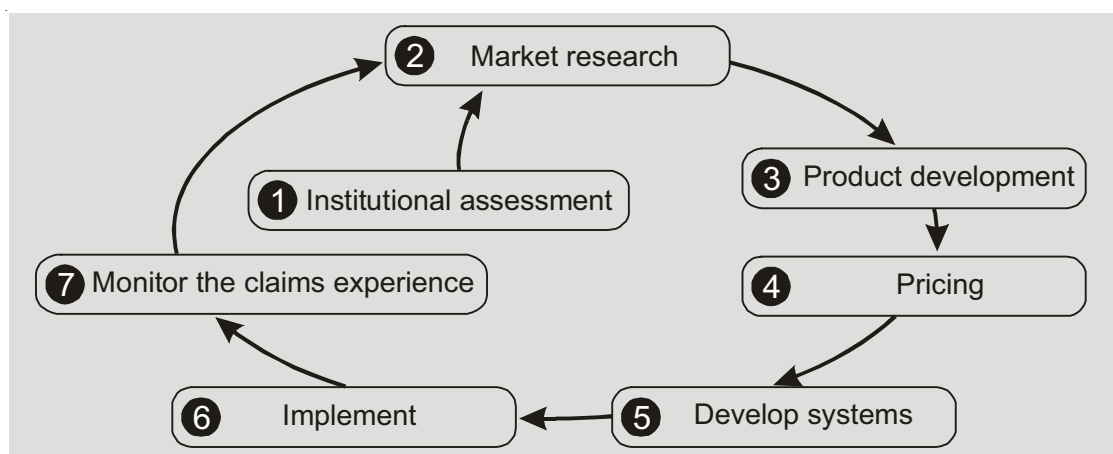
- Explain the stages of microinsurance programme implementation
- Define typical microinsurance activities and responsibilities
- Explain effective risk transfer strategies for common risks
- Explain strategies of identifying an insurance partner
- Identify central aspects of insurance marketing
- Outline a process for a microinsurance development with your constituents

##### Contents

- I. Concepts for Product Development
- II. The Product Development Process
- III. Strategies for Sustainability

##### I. Concepts for Product Development

- Overview of The Basic Process



### **Common Challenges in Product Design**

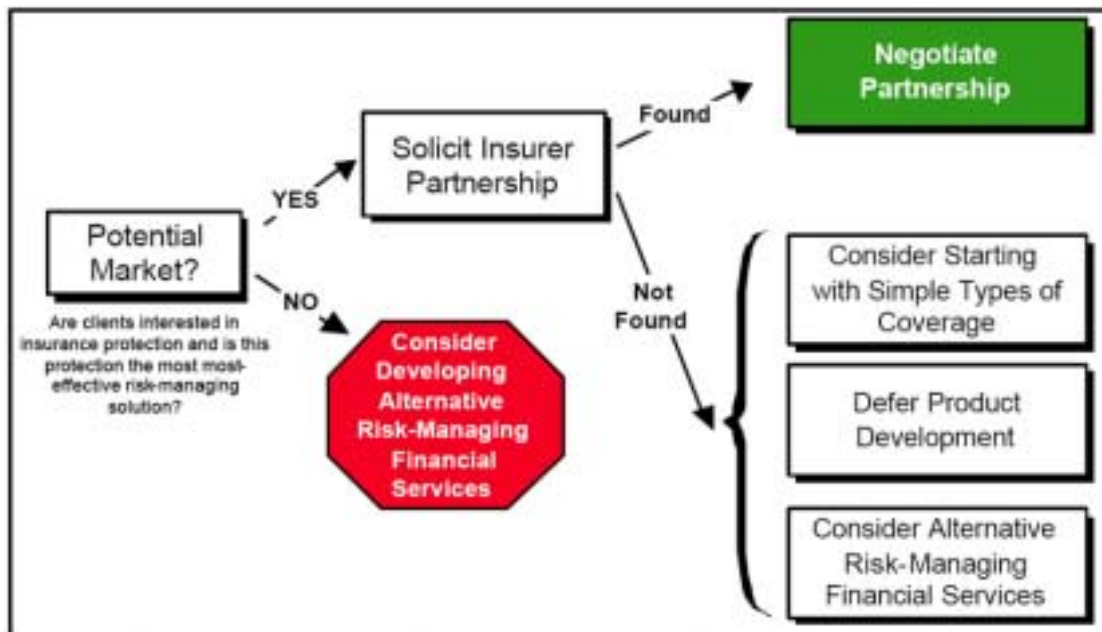
- Expanding beyond life products to those that better meet special needs of the poor,
- Developing a product that is disseminated at low cost,
- Addressing low levels of insurance education and experience with the low income market,
- Developing microinsurance relationships (insurers, intermediaries, etc.) and infrastructure,
- Expanding outreach.

### **A Systematic Approach Helps**

- Offer products that address client needs,
- Prepare the institution to offer products effectively,
- Minimise likelihood of product failure,
- Improve policyholder satisfaction and retention.

## **II. The Product Development Process**

- Institutional Assessment: "Should Our Organisation Pursue Microinsurance?"

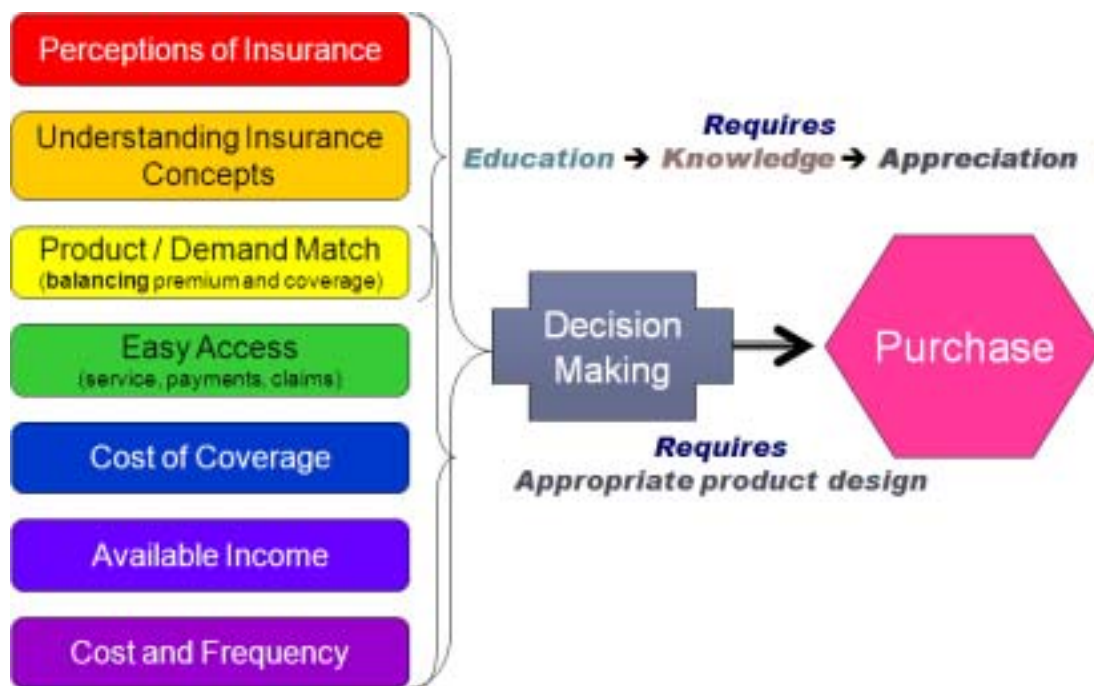


Source: Brown, Green and Lindquist, 2000. *A Cautionary Note for Microfinance Institutions and Donors Considering Developing Microinsurance Products*

### **Understanding the Key Issues: Demand and Supply**

- Demand-related: Identify risks and decision-making processes of low-income People
- Supply-related: Identify relevant products, Identify relevant delivery channels, Identify potential claims servicing mechanism
- Identify environmental opportunities, threats, and information needs

**Factors Influencing Potential Policyholder Decision to Purchase Microinsurance**



**Demand Assessment and Market Research**

- Efforts to assess the market will look at:
- Perception, understanding, and awareness of MI among low-income households,
- Suitability of potential products,
- Affordability of potential products,
- Enabling environment for promoting: IRDA’s incentives and MI expansion.

**Product Development and Pricing**

- Actuary needed to fully assess related risks and set prices,
- They look at:
  - Common risks faced by members i.e. sickness, disability, death, loss of assets
  - Probability of occurrence i.e. percentage of those covered to be affected each year,
  - Average financial payout for occurrence of each risk.

**Systems Development**

- Partner Identification and Development
  - Insurer and possible re-insurer,
  - Intermediary (often an MFI or other NGO or CBO),
- Marketing and Distribution
  - ToRs or contracts with partners help assign responsibilities for key tasks,
  - Brochures from insurer, distributed through intermediary



- Premium Collection and Claims Processing
  - o Often taken by intermediary as part of another task: loan repayment, fertiliser purchase, post distribution (?)

**Microinsurance Activities and Responsibilities**

Preparatory Activities	Front Office Activities	Back Office and Management Operations
<ul style="list-style-type: none"> <li>• Initial market research</li> <li>• Product design</li> <li>• Risk analysis</li> <li>• Pricing</li> <li>• Training staff on insurance concepts</li> <li>• Testing</li> <li>• Contract preparation</li> <li>• Establishing the framework of the administrative system</li> </ul>	<ul style="list-style-type: none"> <li>• Marketing and sales</li> <li>• Assisting clients with contracts (designation of beneficiaries, understanding the policy)</li> <li>• Client monitoring and verification</li> <li>• Claims application completion assistance</li> <li>• Premium collection</li> <li>• Claims disbursement (final disbursement to beneficiary)</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing market research and feedback</li> <li>• Claims review and assessment</li> <li>• Processing of applications, payments and claims</li> <li>• Capital mobilisation</li> <li>• Internal audit</li> <li>• Reinsurance</li> <li>• Conflict resolution</li> <li>• Statutory obligations (e.g., reporting)</li> <li>• Legal issues</li> </ul>

*Source: Churchill, Liber, McCord, Roth. 2003. Making Microinsurance Work for Microfinance Institutions. ILO.*

**Piloting and Review**

- Training for staff before pilot and discussing FAQs
- Exposing project managers, supervisors, and directors to other international microinsurance efforts, where appropriate,
- Selling product through 2-3 cycles,
- Formal, multi-partner review: using performance indicators to assess viability, success, and additional opportunities.
- Using lessons to revise product.

**Rollout**

- Revision of product based on pilot lessons,
- Slow reduction of subsidies,
- Reduced dependence on intermediaries for service provision,
- Availability of infrastructure and qualified personnel,
- Continue to review client satisfaction and improvement options.

### **III. Strategies for Sustainability**

- Key Lessons for Designing Sustainability into the Microinsurance Product
  - Successful product balances: Inclusion, Benefits desired by customers, Affordability and/or profitability.
  - Products should be designed with affordability in mind.
  - Easier to deliver if beneficiaries are a market is a well-organised group, MFI participants, union members, etc.
  - Group coverage minimises administrative costs and premiums.
  - Focus on most important insurable risk simplifies policies.
  - Claims procedures should be easy for the special market.

### **References**

All materials listed in training Module 3.

Information on SWOT Analysis can be found at: [http://en.wikipedia.org/wiki/SWOT\\_analysis](http://en.wikipedia.org/wiki/SWOT_analysis).

UNESCO. 2004. Training Guide and Training Techniques. Available at: <http://unesdoc.unesco.org/images/0013/001356/135603e.pdf>.

Brown, W. and Churchill, C. 2000. Insurance provision in low-income communities: Part 2: Initial lessons from microinsurance experiments for the poor.

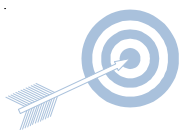
# Module 4

## Four Case Examples of Successful Microinsurance Initiatives in India





## Four Case Examples of Successful Microinsurance Initiatives in India



### Learning Objectives

By the end of this module you should be able to:

- Explain Four MI policies currently used in India and how they address CBDRR
- Identify central strengths and weaknesses, opportunities, and threats of each policy for CBDRR
- Build on these case studies with ideas for your constituents



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### Facilitator's Note

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## 4.1 Case Study 1: Tata-AIG Life Insurance Company Ltd.<sup>1</sup>

### 4.1.1 Context and Tata-AIG Life Insurance Product

Tata-AIG Life is a microinsurance product offered in India by Tata-AIG Life Insurance Company – a joint venture of the Tata Group and the American International Group (AIG). Tata-AIG Life has operated since 2001.

The Tata Group is a large industrial conglomerate in India and the Tata name is widely recognised in Indian households across socioeconomic classes. This familiarity provides a level of trust among potential insurance clients that is critical for a successful microinsurance product. AIG is one of the world's largest insurers and offers technical and strategic guidance through its Hong Kong office. In addition to in-house capacity to administer a wide range of insurance products, AIG has experience with microinsurance products in Uganda.

Though Tata-AIG had a well-established brand name, they lacked presence or alliances in many of India's remote areas. As a result, Tata-AIG needed to establish a network of partner organisations to penetrate rural areas for promoting sales of microinsurance.

Tata-AIG senior managers saw microinsurance as a multi-fold opportunity. Microinsurance would allow them to fulfil regulatory obligations to service low-income and rural households, to enter relations with thousands of new customers, and to provide a financially viable social service.

### 4.1.2 Product Administration

In contrast to most microinsurance providers in India, Tata-AIG has created a single department to develop, sell, and service all microinsurance products. This helped ensure appropriateness of policy design for the product's unique low-income market.

Tata-AIG has NGO partnerships with over 50 NGOs. Over 40% of its 35 000 social sector policies were sold through the partner-agent model. In this model, the NGO/MFI partner performs the sales and servicing functions, primarily for its current microfinance clients. The outsourcing of these front-end processes helps to keep costs lower than if Tata-AIG staff would work in the field directly. The two other models, the business associate model and the Community Rural Insurance Groups (CRIGs) model, account for the remaining 60% of the business.

Local partners were invited upon recommendation to Tata-AIG by donors and others working in community development. When partners were selected, partners proposed community "micro-agents" to administer the products locally. The micro-agents established and led CRIGs. These groups consisted of five members, the leader of which was trained and licensed as an insurance agent. CRIG responsibility included promotion, sales, premium collection, and record keeping. They are monitored by the partner NGO and were able to receive commission, bonuses, and other incentives.

<sup>1</sup> Much of the following section is taken from a case study published by the CGAP Working Group on Microinsurance. Their report, "TATA-AIG Life Insurance Company Ltd.: India", Good and Bad Practices, Case Study No. 14, was published in September, 2005 and was written by James Roth and Vijay Athreya. The full version is accessible at: <http://microfinancegateway.org/content/article/detail/28285>.

Community field agents are selected based on criteria chosen by Tata-AIG for an ideal microinsurance leader<sup>2</sup> and are evaluated through a written exam that is mandated by the regulator. The exam is administered by an external examiner. Subsequently, the agent is trained on processes for marketing and servicing the microinsurance product.

After being licensed and forming their CRIGs, the agents start selling. Training is provided to many agents after three months. Three retraining modules are conducted over a period of a year and each lasts three days. These modules cover basic knowledge on retail finance including insurance, analysing company data, advice on objection handling, team building, communications development, leadership practices, as well as general instruction on the relevance of microinsurance to the poor. Training is also provided on computer usage, particularly the Internet to facilitate the use of the agent's portal. Training programmes are offered in local languages.

The amount insured under the microinsurance products is considered too small to pose systemic risk to Tata-AIG. As such, microinsurance policies are not reinsured.

#### 4.1.3 Products Offered

Tata-AIG has designed its products to relate to requirements of legislation aimed at social and rural sectors. As such, only social sector products related closely to low-income households as

Tata-AIG Microinsurance Products			
Product Name	Kalyan Yojana ("Welfare Plan")	Karuna Yojana ("Mercy Plan")	Jana Suraksha Yojana ("Mass Protection Plan")
Microinsurance Type	Term life	Life	Life
Term (years)	5	15	15
Eligibility	Age 18-55, cannot renew beyond 60, for men and women	Age 18-45, cannot renew beyond 60, for men and women	
Renewal	May renew within five years of lapse. 30 day grace period.		
Annual Premium (Amount in Rs.) <sup>3</sup>	4.43 to 25.82 <sup>4</sup>	279-289	672-687
Sum Insured (Rs.)	10000 to 15000 <sup>5</sup>	13000 to 25000 <sup>6</sup>	54000 to 29000 <sup>7</sup>
Payment Period	Monthly, quarterly, semi-annually, annually		
Exclusions	Suicide in first year		

All products are voluntary and offered to individuals (as opposed to whole households).

- 2 Among other characteristics, the agent must: be a resident in community servicing; have passed 10th standard; married – for stability; demonstrate ability to write English; demonstrate integrity, leadership and ability; demonstrate training skills.
- 3 Variations depend on age of policyholder and sum insured.
- 4 Range represents premium in Rupees, per Rs. 1000 insured.
- 5 Total sum insured depends on age and equals Rs. 15000 for ages 18-40 and Rs. 10000 for ages 41-55.
- 6 Total sum insured depends on age and equals Rs. 25000 for ages 18-38, Rs. 21000 for age 39, Rs. 20000 for age 40, Rs. 18000 for ages 41-44, and Rs 13000 for ages 45+.
- 7 Total sum insured depends on age and equals Rs. 54000 for ages 18-28, Rs. 52000 for age 29, Rs. 51000 for ages 30-38, Rs. 41000 for age 39, Rs 38000 for ages 40, Rs. 36000 for ages 41-44, and Rs 29000 for ages 45+.

rural sector policies can be more easily sold to high-income rural families. For example, rural sector obligations can be met through selling tractor insurance to wealthier clients.

#### 4.1.4 Distribution Channels

The most interesting and innovative aspect of Tata-AIG's work lies in the development of the micro-agent delivery model. There are essentially two types of micro-agent models used. One is that of groups of micro-agents called CRIGs and the other of individual micro-agent. Both are supervised by NGOs (termed business associates) who perform a range of tasks including the recruitment of agents, frontend administration, and mentoring.

The CRIG, which is essentially a firm of insurance agents, is supervised by a nearby rural organisation, like an NGO. The CRIG's members are involved in promotion, sales and collection of premiums, and maintaining records. The CRIG leader documents all fortnightly meetings with the NGO and all weekly CRIG meetings. At the weekly CRIG meetings, the leader records the microinsurance activities of CRIG members related to premium collection. Aside from this, the CRIG members discuss the operations of their firm. The fortnightly meetings are used by the NGOs to collect proposal forms, premiums and renewal notices. The NGO also provides policy documents for the CRIG to pass onto its clients.

For every policy sold, the NGO gets 10% in the first year. The CRIG itself receives commission income, but not the individual CRIG members. The CRIG decides how to divide up commission income. The standard model is that the member of the CRIG who sold the policy gets all the commission income due to them except for 5% of the commission in the first year, which they give to the CRIG leader for the extra work she does in preparing and submitting the policy. Generally, the CRIG commission per policy is 26 to 30% of the premium for the first year, and between 5.5% and 6% for the 2nd and 3rd years. From the fourth year onwards commissions vary between 4 and 5 percent. In addition, there are various bonuses and incentives. CRIGs that build a client base of 600 policies gets a bonus of Rs 10 000 and the NGO gets a Rs 5 000 bonus. There is no time limit for achieving these goals.

In an MFI partner-agent model, the MFI collaborates with an insurance company and sells its products. The sales are usually linked to loans; typically, loan officers sell and service these policies. Compared to the MFI partner-agent model, the CRIG model has a number of advantages:

1. The CRIG model creates an insurance distribution infrastructure in low-income neighbourhoods; it creates a new profession, the micro-agent, with new livelihood opportunities for poor women.
2. The CRIG model can draw from many suitable NGO partners, while not being dependant on a few good MFIs.
3. The CRIG model creates a cheap distribution channel that is not linked to a loan, that can easily serve an NGO existing client base, but is not limited to it.
4. Since the CRIG members are earning income from their efforts, it creates incentives for them to increase their sales volumes, incentives not found in most MFI partner-agent models.



5. It is possible that, in the long run, the CRIGs may not need the assistance of the NGO and may deal with Tata-AIG directly, providing long-term sustainability.

#### 4.1.5 Product Design

Before designing the social products, the preferences of the target market were determined. During the research, it was clear that the target market desired products with a savings element, but at the same time could not afford annual premiums in excess of US\$25. It also became clear that there were slightly wealthier households who, while still poor (with a monthly household income of less than US\$125), could afford slightly more expensive products. This finding suggested to Tata-AIG that it needed a diverse portfolio of products to meet the preferences of this heterogeneous market.

Unfortunately, it was not actuarially feasible to offer very significant returns to counter inflation at such low premium levels. The two "term return of premium products" (TROP) were designed to be sold for an annual premium of US\$7 (Rs 300) and US\$17 (Rs 720). These TROP products essentially return the cumulative premiums paid over 15 years plus 25 percent.

A further issue emerged once the products were priced. The death cover at higher ages of entry worked out very low. To keep the premium low, it was decided to increase the death benefit and reduce the maturity benefit. This is the reason for the decreasing savings element for the Karuna and Jana Suraksha Yojana products (see Tables 4.3 and 4.4). The agents have been trained to emphasise the death benefit while selling.

The third social product is a 5-year term product where there is no return on maturity, but only a death cover capped at Rs 15000 (\$333) with an entry age of between 18 and 40 and at Rs 10,000 (\$222) if they enter the scheme in the more risky age group of 41 to 55. This offering was designed to suit the needs of pure term cover at the lowest cost so that even the poorest could afford it. Part of the motivation for the product came not from client demand but rather from MFIs that wanted insurance to cover their loans. By far the most successful products have been those offering a TROP, perhaps indicating the importance that clients attach to savings.

The premium was calculated by the in-house actuary. The lack of actuarial data caused difficulty in calculating the premium. In the initial design, the actuaries simply assumed that mortality figures were significantly higher for rural areas and low-income clients. Future life insurance policies will be calculated with greater accuracy using the experiences generated by the initial policies.

#### 4.1.6 Conclusions

While most insurers in India tried to fulfil their regulatory obligations to sell microinsurance by partnering with an MFI, Tata-AIG realised that the total number of MFIs was limited with respect to both quantity and quality. Relying solely on MFIs to sell one's products would not be sufficient in the Indian context. This led them to explore other distribution channels. Partnering with MFIs or NGOs nonetheless remained a crucial component in Tata-AIG's distribution strategy. They relied on MFIs and NGOs for information about the local community, to help build trust with the local community, and finally Tata-AIG outsourced some operations to the MFI/NGOs to lower servicing and selling costs.

The development of micro-agents and their firms (CRIGs) is the most significant innovation of Tata-AIG's microinsurance work. Microinsurance is a high volume, low cost business. In such businesses, cheap and efficient distribution is crucial. It is too early to make a judgement on whether the model is successful. If it is successful, the model will provide a major new means of overcoming the microinsurance distribution problem.

Microinsurance is never likely to be a significant contributor to profits, therefore the CEO's support can never be assumed. Without the CEO's support from the inception, the project would not have taken off. There are a number of reasons why the CEO may be motivated to support microinsurance. In the case of Tata-AIG they included:

- Partial fulfilment of Corporate Social Responsibility
- Marketing — getting one's brand into the market early and creating a positive association with the brand.
- Future profitability — in a growing economy like India, today's microinsurance clients may be tomorrow's high premium clients
- The promotion of microinsurance often helps develop a good relationship with the local regulator. This is especially important for entrants into a foreign market, which was the case with AIG in India.

Many insurance companies make the mistake of assuming that microinsurance is simply a matter of reducing the price and benefits of existing policies. Microinsurance requires specialised staff and different distribution channels. The CEO of Tata-AIG realised this and created a specialised rural and social products channel within the company. It was also important to give the team a degree of latitude to be entrepreneurial and innovative. The staff chosen to run the microinsurance section were young and enthusiastic, with little or no previous experience in insurance, but often some experience working with low-income communities. This has been important because of the dramatically different approach that was needed to sell and service microinsurance products.

The insurance business requires trust from policyholders, especially among the India's rural poor. Much of the Indian microinsurance market is unaware of insurance. However, for those that do have awareness, their perspective has been tainted by poor previous experiences of insurance. Teaming up with a trusted local company (Tata) helped to create policyholder trust in the insurer.

## 4.2 Case Study 2: Vimo SEWA<sup>8</sup>

### 4.2.1 Overview

VimoSEWA is a unique microinsurance scheme offered by the Self-Employed Women's Association (SEWA). VimoSEWA has a mission "to provide social protection for SEWA

<sup>8</sup> Much of the following section is taken from a case study published by the CGAP Working Group on Microinsurance. Their report, "VimoSEWA: India", Good and Bad Practices, Case Study No. 16, was published in October, 2005 and was written by Denis Garand. The full version is accessible at: <http://microfinancegateway.org/content/article/detail/28653>.

members to cover their life cycle needs and the various risks they face in their lives, through an insurance organisation in which they themselves are the users, owners and managers of all services." The initial product was offered in 1992 as a social security scheme operated by the SEWA union. Participation in the scheme, which integrates life, accident, health, and asset protection, is voluntary. As SEWA is a federation of self-employed women in the informal sector, many members have lower income and face higher risk than more "typical" insurance clients. In nearly 15 years, to 2005, participation in the scheme grew to over 120,000 policyholders, with the largest growth occurring just after the 2001 Gujarat earthquake.

Initially SEWA offered insurance products to members that were underwritten by the public insurance monopolies that administered life and general insurance. In the late 1990s, as the economy liberalised, VimoSEWA chose to maintain the products but to create a regulated insurance company and that was owned by SEWA members. The transition to self-insurance initially brought financial and service benefits. The earthquake, though, caused considerable strain as it affected thousands of policyholders (a large proportion of the total) simultaneously. That year US\$75000 was required to satisfy policy claims compared with earlier year averages of US\$662. After the earthquake, VimoSEWA returned to the partner-agent model, where National Insurance Company would underwrite and make payments on health and asset claims.

A post 2001 surge in demand for earthquake insurance combined with a range of new private insurers and a more experienced VimoSEWA team. Now VimoSEWA was well positioned to negotiate with insurers to establish a more efficient policy model. The team developed a business plan to reach financial viability of the products. The new model would be based on providing insurance for a wider community a voluntary basis over the long term.

<b>A Chronology of Major Changes in VimoSEWA</b>	
<b>Year</b>	<b>Change</b>
1992	Mandatory life and accidental death insurance with LIC
1993	Voluntary life and accidental death insurance
1994	Added asset and health insurance
	Added spouse life insurance
1996	Self insured health
1998	Self insured asset
1999	Added health insurance for spouse
2001	Gujarat earthquake
	Developed business plan to scale up operations
	Added Scheme III
2002	NIC insures health and asset
	Period of communal violence
	Changed annual payment and insurance from July 1 to Jan 1
2003	Child health insurance added
	ICICI Lombard provides health and asset
2005	Eliminated Scheme III
	AVIVA becomes life insurance partner

#### 4.2.2 Membership

VimoSEWA offers its policies to SEWA members who predominantly reside in Gujarat state. Membership in SEWA continues to rise and in 2005, the federation had over 700,000 members. Target policyholders are both urban and rural, and include a range of workers in the informal economy, such as manual labourers, home-based workers, small scale vendors, and small scale farmers. Many members earn less than US\$1 per day and are some of the society's most vulnerable. Their informal employment offers no protection from health or natural hazards. VimoSEWA is designed to transfer some of this risk.

The initial coverage included life insurance on the member, widow insurance in the event of the spouse's death, and accidental death. These were expanded to include asset protection, health insurance, maternity coverage and most recently, health insurance for children. Without this insurance package, traditional approaches are used, such as borrowing from savings group/bank savings, moneylenders, aid of relatives, pawning and selling of assets to meet expenses.

#### 4.2.3 The VimoSEWA Product

VimoSEWA offers an integrated product, covering assets, health, and accidental death. If members purchase the policy for themselves, they are typically eligible to purchase coverage for their husbands and children.

VimoSEWA Coverage and Price <sup>9</sup>				
Scheme I	Member	Spouse	Child	Family
Natural Death	5000	5000		
Health	2000	2000	2000	
Asset and Loss	10000			
Accidental Death	40000	25000		
Spouse Accidental Death	15000			
Annual Premium	1000	70	100	250
Scheme II				
Natural Death	20000	20000		
Health	6000	6000		
Asset and Loss	20000			
Accidental Death	65000	50000		
Spouse Accidental Death	15000			
Annual Premium	225	175	100	480

Scheme I is the most popular and is affordable to most SEWA members. Benefits have evolved over years based on feedback from policyholders. Decisions to expand coverage are taken based on several factors: anticipated policyholder ability to pay for the expanded benefit, capacity to manage the product, and probability of viability. Members have noted an interest in livestock coverage, but it has not been added to the VimoSEWA package as it would be too costly for most policyholders to pay and would require a different management arrangement.

<sup>9</sup> Price (in rupees) given on January 1, 2005.

#### 4.2.4 Results

A well-developed database has helped VimoSEWA progress in recent years. The database allows the team to access information on clients rapidly and to contact policyholders for renewal. A separate database is maintained for claims. Both databases are used for reviewing progress vis-à-vis the business plan and for monitoring trends.

<b>VimoSEWA Key Results (in US\$)</b>			
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Net Income (net donor contributions)	(91,042)	(15,714)	(20,616)
Total Premiums Earned	178,720	168,448	77,740
Claims/ Total Premiums (%)	74%	81%	137%
Administrative Costs/ Premiums (%)	137%	97%	150%
Claims Cost per Total Adults Insured	1.22	1.24	1.20
Growth in Number Insured (%)	(4%)	18%	218%
Income of Investments	96,326	108,715	123,214
Renewal Rate (%)	51%	48%	N/A

In theory, India's households that are below the poverty line have access to public health facilities; in practice, they find these facilities difficult to access and/or with inadequate service capacities. Workers in the informal economy cannot access the formal sector pension, health and other benefits. However, the informal economy does have access to a subsidised health insurance programme. However, few participate as the premium is too high for most of the population below the poverty line; in addition, the health insurance has too many exclusions and is not communicated clearly. The government has provided funds to LIC to subsidise 50% of the cost of providing life insurance to populations below the poverty line. Access may be difficult as a group of a least 10 people must be formed to get the benefit.

#### 4.2.5 Summary of Key Lessons

The outreach in 2005 is over 120,000 adults insured, a large increase from the 30,000 insured in 2000. Moreover, members have a much better understanding of benefits. The insurance scheme has enhanced benefits while increasing premiums, responding to members needs and staying within their ability to pay.

Innovative marketing skills have been developed with proper messages conveyed to the target audience. Now, insurance is marketed as a risk management tool and not a benefit scheme.

Significant improvements in the speed of reimbursing members' claims have been achieved over the last three years, while maintaining insurance standards. The MIS is now well established, providing vital and accurate management information and developing links with other SEWA systems to improve outreach. The team running the system has improved its skills and speed of entering data. Regular reports, financial and otherwise have become valuable management tools.

### **Risk Management**

It is extremely dangerous for an organisation to provide insurance without reinsurance, as VimoSEWA experienced with its asset benefits following the earthquake. Based on that experience, almost all of VimoSEWA coverages are provided via insurance companies.

Maintaining an accurate database is vital to an insurance operation. VimoSEWA can track claims costs by benefit and by various parameters, helping it to understand how to price each benefit in the package and negotiate with partners.

For health insurance, a well-designed cashless system should contain claims costs. Health claims have increased substantially for VimoSEWA on a reimbursement basis. Moving to a cashless system will lower claims costs while improving customer service.

### **Organisation and Management**

A separate organisation, even if it is a division of the existing NGO, should be given responsibility for the microinsurance operation. It has only been possible to manage VimoSEWA effectively once it had its own business plan, financial statements and performance reports.

Management needs to be focused. With the development of the VimoSEWA business plan, key benchmarks were developed and responsibilities assigned. Periodic monitoring alerts management that adjustments to procedures are required. Maintaining year-to-year focus is essential to achieving objectives.

Acquiring and training management and staff is critical for an effective and viable microinsurance operation. Constant capacity building and knowledge of the insurance industry at large should be provided to the staff. SEWA's emphasis on training is beginning to reap significant results.

Management information systems should be adequate to develop useful reports for management and other users. Insurance companies that have developed good information systems with clean relevant data have superior performance. Now that VimoSEWA has a well-maintained database, it is easier to monitor results and make appropriate modifications to achieve targets.

Quick, efficient claims service is necessary for a microinsurer. Initially VimoSEWA's claims reimbursement took months, however today claims are paid in a timely manner. Donors have an important role to play in supporting the development and expansion of microinsurance; however, their efforts should be coordinated. The lack of a common donor reporting method imposed inefficiencies on VimoSEWA.

### **Product Design**

Product design and features should be revisited on yearly a basis to make the scheme marketable and innovative. VimoSEWA collects feedback from members and other SEWA divisions to determine if it should implement any changes.

The most viable microinsurance product is life insurance that is tied to microcredit; however, that coverage does not deal with the greater community's need for health insurance or other benefits, nor does it protect people when they are not borrowing money.

VimoSEWA's integrated product is an innovative and risky means of addressing the real risk management needs of poor women (and their families). Even though viability remains a distant dream, it should be clear that VimoSEWA's multi-benefit product is both more challenging and more needed than most microinsurance products.

Integrating benefits in one product helps reduce adverse selection in a voluntary scheme. If the microinsurer offers health coverage, staff has to have health knowledge and skills. VimoSEWA staff with health knowledge has been able to detect fraud from both health care providers and members.

Preventative measures to promote good health practices ultimately reduce claims costs.

### **Distribution**

Insurance is sold, not bought. To sell insurance, an organisation has to have the trust of the community. Hiring sales promoters with the appropriate skill set will improve results. VimoSEWA has seen an increase in renewal rates as the Vimo Aagewans have increased their skills and communication has focused on clear messages about product benefits, exclusions and claims procedures.

Obtaining a high participation of a target population is essential to achieving viability in health insurance. VimoSEWA has found that results improve when whole families are insured and when there is a large percentage of the target community insured.

## **4.3 Case Study 3 : Taking Risk off the Backs of the Poor: A Case Study of Afat Vimo: Disaster Insurance<sup>10</sup>**

*Mihir R. Bhatt with Mehul Pandya and Tommy Reynolds*

### **Abstract**

In India, risk of personal, household and small business assets are often unprotected against disasters. The costs for relief and rehabilitation often rely on aid, but support from outside entities is often unpredictable-leaving the damaged assets of the poor by natural hazards difficult to replace-and making recovery difficult. Groups that fail to recover are more vulnerable to subsequent disasters. Insurance covers many losses but is often unavailable to the poor due to the high transaction cost to affordable premium ratio. Microinsurance is one of a number of viable methods that has emerged to provide the safety and preparedness benefits of insurance to the poor. Microinsurance puts cash into the hands of people so they can begin rebuilding their own livelihoods. Microinsurance has emerged in a policy environment that has made recent progress towards disaster risk reduction. Recent insurance regulatory reforms within the Indian Government and the prioritisation of risk reduction by the UNISDR, the ProVention Consortium, and DFID have contributed to the viability and advancement of microinsurance for the poor.

<sup>10</sup> This text is an excerpt from a case study published by Tudor Rose in their book *Real Risk*. The original case study, "Taking Risk off the Backs of the Poor: A Case Study of *Afat Vimo* Disaster Insurance" was published in 2006 and was written by Mihir R. Bhatt, Mehul Pandya, and Tommy Reynolds.

*Afat Vimo* (Gujarati for 'Disaster Insurance') was born in this environment as a product of the All India Disaster Mitigation Institute. This document discusses the role of this instrument in an attempt to transfer disaster risk from the poor to the commercial insurance market. The operating system is detailed as well as procedures of claims settlement. Successes have included the design of an affordable product, transparent payout, and linking microinsurance with disaster preparedness education. Challenges include the fact that the administrative cost currently falls on the implementing agency, and is not paid by the insurance market. The demand for the *Afat Vimo* product has been growing: it currently covers over 5500.

### Background

Due to the combination of high exposure to natural hazards and high human vulnerability, South Asia experiences significant losses to disasters perennially. Present studies estimate that more than 90% of the Indian population does not benefit from any kind of social protection.<sup>11</sup> Despite high and steady growth in the country, the cycle of disasters and vulnerability deprives many millions of poor of the human development that might have accompanied such growth. Within Asia, 24 percent of deaths due to disasters occurred in India because of its size, population, and vulnerability.<sup>12</sup> Since 2004 alone, India has faced two major disasters – the Indian Ocean a tsunami, and the South Asia earthquake – which killed more than 10,000 and 2000 people in India respectively.

Each year, India suffers disaster losses of US\$1 billion according to World Bank studies<sup>13</sup>. On average, direct natural disaster losses amount to 2% of India's GDP and up to 12% of central government revenues<sup>14</sup>. These estimates do not fully include losses incurred by informal sector businesses and workers, which constitute a major proportion of the economy in India. The Calamity Relief Fund of the Government of India spends US\$ 286 million towards providing relief to the victims of disasters. Over the past 35 years, India has suffered direct losses of US\$30 billion; losses are also increasing, US\$9 billion in direct losses were suffered between 1996 and 2000 alone<sup>15</sup>. The 2001 Gujarat earthquake alone has been to the tune of US\$2.7 billion<sup>16</sup>. The price tag of the tsunami and South Asia earthquake are surely enormous but are yet to be seen.

Assuming that the impact of natural disasters remains so high, and many estimates expect them to increase, how will India be able to cope, not to mention use the benefits of economic development to uplift the millions of poor? Just as it is the poor countries that are most adversely affected by natural hazards, the poor within countries face the greatest difficulties. Their small but important assets are often not secured, reinforced, and their financial risks are not spread across insurance markets.

11 International Labour Office. (2005). *India: An Inventory of Microinsurance Schemes*. Geneva: ILO.

12 Government of India. (2002). "Tenth Five Year Plan 2002-2007". New Delhi: GoI.

13 Lester, R. and Gurenko, E. (2003). "India: Financing Rapid Onset Natural Disasters in India: A Risk Management Approach." World Bank Report No. 26844-IN. New York: World Bank.

14 (Lester and Gurenko 2003).

15 (Lester and Gurenko 2003).

16 National Centre for Disaster Management (India). (2002). "Gujarat Earthquake: A Case Study." New Delhi: NCDM.



Diagram 1 indicates the lack of disaster insurance coverage of assets in Asia. According to the Munich Re Group's Annual Review: Natural Catastrophes 2005, the proportion of disaster losses in 2005 covered by insurance were 51% and 30% for the Americas and Europe, respectively. Over the same period, only 5% of losses faced in Asian countries were covered by insurance. Moreover, even within Asia, it is mostly the wealthy that purchase and use insurance.

### All India Disaster Mitigation Institute

It has been the experience of All India Disaster Mitigation Institute that the poor, especially the poor amongst disaster victims, are repeatedly exposed to and affected by disaster. They are also perpetually restricted in their access to vital financial services. This increases vulnerability to future disaster-induced loss, and impedes sustainable recovery and long-term development. AIDMI have found that there is a substantial lack of viable options for reducing and transferring risk made available to the most vulnerable sectors of society, and this is true before disasters but particularly acute during relief provision.

### Background of Afat Vimo

*Microinsurance is the protection of low-income people against specific perils in exchange of regular monetary payments (premiums) proportionate to the likelihood and cost of the risk involved as with all insurance, risk pooling allows many individuals or groups to share the cost of a risky event.*<sup>17</sup>

Microinsurance products are becoming increasingly important for disaster risk reduction. They transfer financial risk from vulnerable individuals to the insurance market. Generally, insurers bundle several hazards in one contract; this allows premiums paid for better-understood hazards to reduce the rates of less predictable ones such as earthquakes<sup>18</sup>. *Afat Vimo* is a version of microinsurance designed for the poor among vulnerable. It protects people from the impacts of hazards on their assets by providing cash payouts in the aftermath of a disaster. This is done in return for monthly premiums, which are paid to the insurance companies through AIDMI.

*Afat Vimo* promotes learning across insurance companies, authorities, donor communities, and NGOs to facilitate the convergence of microfinance tools and disaster risk reduction strategies. The *Afat Vimo* scheme represents an innovative approach to risk identification, pooling, and

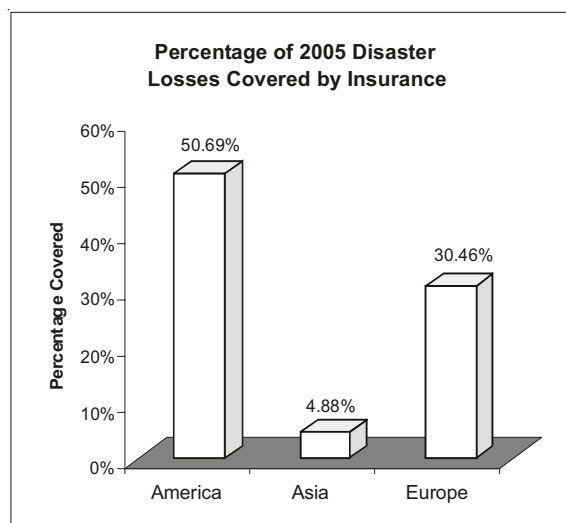


Diagram 1: Financial losses to disasters in Asia have significantly less coverage than losses experienced in America and Europe.

17 Churchill, C.; Liber, D.; McCord, M.; and Roth, J. (2003). "Making insurance work for microfinance institutions: A technical guide to developing and delivering microinsurance". Geneva: ILO.

18 Vakis, R. (2006). "Complementing Natural Disaster Management: The Role of Social Protection." World Bank SP Discussion Paper No. 0543. Washington, DC: World Bank.

transfer, which recognises the fact that the majority of poor disaster victims have limited, or no access to risk transfer schemes or programmes.

*Afat Vimo* is a project that has arisen under the Regional Risk Transfer Initiative of the ProVention Consortium; it builds upon the significant work done on risk identification undertaken by the ProVention Consortium through the Disaster Management Facility and Hazard Management Unit of the World Bank and the International Federation of Red Cross and Red Crescent Societies. The main objective of *Afat Vimo* is the convergence of micromitigation, and microinsurance as a precondition for effective local, low-cost risk transfer.

### Demand for Insurance

In 2002, a majority of relief beneficiaries from Gujarat earthquake relief were still exposed to disaster induced financial losses. Studies including the Gujarat Community Survey of 2002 by AIDMI and the ProVention Consortium revealed that access to risk transfer is correlated with sustainable economic recovery among victims.<sup>19</sup> Yet, AIDMI found that only 2% of those they surveyed had insurance. As a result, they designed a microinsurance scheme to augment their ongoing Livelihood Relief Fund<sup>20</sup> activities. The resultant scheme was the product of extensive discussions and negotiations with insurance providers who might be interested in supplying low-premium insurance policies to poor clients. This was a challenge.

### Product Description and Client Profile

*Afat Vimo* policyholders are covered for damage or loss up to the value of US\$ 1744 for non-life assets and US\$ Rs. 465 for the loss of life – giving a total coverage of US\$ 2209. Current *Afat Vimo* clients include individuals from low-income households with annual income of US\$ 280. These households are mainly involved in small enterprises in the informal sector and have assets worth approximately US\$ 209.

Disasters such as fire, explosion, riots, malicious damage, aircraft damage, cyclone, tempest, flood, inundation, earthquake, lightening, implosion, strike, impact damage, storm, typhoon, hurricane, tornado, and landslide are covered under the scheme. *Afat Vimo* policyholders are also supported with micro-mitigation measures such as fire-safety training, seismic-safe construction practices, and business development services. The policy is available for an

Disasters Covered by <i>Afat Vimo</i>	Typical Loss/Damage from Disasters in South Asia
Cyclone/hurricane, flood, earthquake, fire, explosion, riot, malicious damage, aircraft damage, tempest, inundation, lightening, implosion, strike, impact damage, storm, typhoon, tornado, and landslide.	Life, income, livelihood assets, household assets, shelter, health, livestock, crops

19 All India Disaster Mitigation Institute. (2002). "Community Survey: Gujarat Earthquake 2001". AIDMI and ProVention.

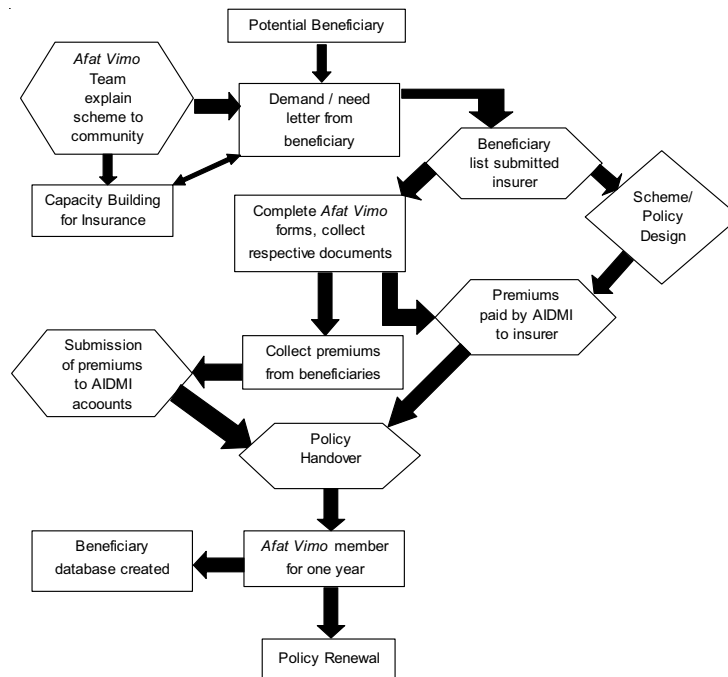
20 Established after the 1998 Kandla cyclone, the Livelihood Relief Fund (LRF) of AIDMI has supported livelihood recovery of 12912 victims to date. This demand driven and tailor-made relief has worked in 2001 Gujarat earthquake, 2002 riots, 2005 tsunami, 2005 Gujarat floods, and 2005 Jammu and Kashmir earthquake.

annual premium of less than US\$ 4 (approximately three days of wages). Damage to policyholders' house, household assets, trade-stock, and losses of wages incurred by accidents are covered. The life of the earning household member is also covered.

**Operating Systems**

*Afat Vimo* is a partner-agent microinsurance model, where AIDMI has brought together a group of poor communities and commercial and public insurance companies have developed a policy to cover them against 19 disasters.

The role of AIDMI in the *Afat Vimo* scheme is of both facilitator and intermediary. Firstly, the *Afat Vimo* team compiles a list of potential candidates eligible for the scheme based on their registered demands. Once the insurance companies have designed operational policies and premiums have been set,



AIDMI reconfirms the beneficiaries on the list and ensures that all of the requisite information has been collated and passed to the insurance companies. Once this is complete, AIDMI pays the premiums to the insurance companies on behalf of the beneficiaries, ensuring immediate coverage. Subsequently, the *Afat Vimo* team begins to collect the premiums from the beneficiaries. The process is effective but time consuming and costly, especially when renewal is optional.

When disaster strikes, the beneficiary first informs the *Afat Vimo* team immediately of the occurrence who then respond quickly to process claim. AIDMI assist beneficiaries in filing claims properly. Since many of the *Afat Vimo* beneficiaries are illiterate or have poor literacy skills, thus they require such assistance. The need to build this general capability among policyholders is recognised. Therefore training is provided to help policyholders understand exactly how they can best use the policy.

**Claims Settlement**

Feedback from beneficiaries who have made claims under the *Afat Vimo* policy has been very positive and encouraging. To date, 41 claims have been made to insurance companies. To date, 23 of these claims have been successfully settled, giving a combined payout of US\$ 5635. Of the claims that have been made, 10 have been made for life loss, eleven have been for personal accident (some resulting in fatality, others causing loss of earnings), two for house fires, and 18 for damage to property and contents as a result of monsoon flooding.

### Success

Microinsurance offers several advantages. It can be a transparent means of providing compensation against damage. It decreases the need for humanitarian aid. Additionally, microinsurance offers the disaster affected a more dignified means to cope with disasters than relying on the generosity of donors after disaster strikes.<sup>21</sup> Microinsurance may also make tracking trends in vulnerability and hazards easier when claims are charted with geographic information systems.



*Though insurance can provide immediate cash for replacing essential assets following disasters, the poor are mostly uncovered.*

Part of the success of *Afat Vimo* can be attributed to the affordable premium negotiated on behalf of the clients by AIDMI.

This puts insurance within the reach of those who otherwise would not be able to access conventional insurance services. Similarly, AIDMI have had a great deal of success in the prompt settlement of claims, which has translated into client satisfaction and a good relationship with the insurance companies. It has also contributed to the good policy renewal rate. The renewal rate is currently 88%. From an original membership of 829 beneficiaries at the launch of *Afat Vimo* in August 2004, coverage has grown to a staggering 5519 members in only 20 months. *Afat Vimo* policyholders are now spread across several districts in Gujarat, as well as in Tamil Nadu and Pondicherry in South India.

A particular strength of the *Afat Vimo* scheme is the unified policy design. Under *Afat Vimo*, life and non-life coverage is brought together under one policy. According to a recent study by the International Labour Office<sup>22</sup>, 45% of the microinsurance schemes researched cover only a single risk. Only 16% of schemes cover three risks, making *Afat Vimo* one of the most simple and comprehensive products in India. This not only makes the policy more attractive to clients, but also makes investment in the policy more efficient in economic terms. Another aspect of *Afat Vimo* that sets it apart from other microinsurance policies is the extensive range of eventualities covered under the policy. To combine micromitigation with microinsurance, community capacity building and involvement in *Afat Vimo* has provided more stability and viability.

Reducing an entity's disaster risk is possible through increasing that entities physical/material, social/organisational, and behavioural/motivational capacities<sup>23</sup> (Anderson and Woodrow 1989). Using this framework, *Afat Vimo* is successful in reducing community risks to disasters. Physical/material goods are insured and can be replaced after loss and damage; social/organisational capacity is supported as informal businesses are brought together and receive a product unaffordable to individuals directly; motivational/behavioural capacity is built as understanding the issues of risk and disasters are increased.

21 Mechler, R.; Linnerooth-Bayer, J.; and Peppiatt, D. (2006). *Microinsurance for Natural Disaster Risks in Developing Countries: Benefits, Limitations and Viability*. Geneva: ProVention/IIASA.

22 International Labour Office. (2005). *India: An Inventory of Microinsurance Schemes*. Geneva: ILO.

23 Anderson, M. and Woodrow, P. [1989](1999). *Rising from the Ashes: Development Strategies in Times of Disaster*. London: IT Publications.

International initiatives have strengthened the impact of *Afat Vimo*. The Hyogo Framework for Action has brought attention, discussion, resources, and commitment to disaster risk reduction and to finding opportunities to address it. The United Nations' Year for Microcredit facilitated commitments on October 14th-15th, 2005 for "Disaster Risk Mitigation: Potential of Microfinance for Tsunami Recovery". Delegates spoke on the strengths of microfinance as a tool for poverty and disaster risk reduction, and experiences of microcredit and tsunami recovery. The *Afat Vimo* team was able to exchange lessons with other practitioners on their microinsurance product and how microfinance may be used for recovery. They learned about opportunities for mixing support grants and microinsurance services with primary stakeholders. They were also able to share progress and opportunities from the *Afat Vimo* experience.



*The poor face disasters on a day-to-day basis. Afat Vimo covers risks that have impact on a small and large scale.*

### Corporate Sector

Increasingly, partnerships with private commercial sector actors are being forged for the application of microfinance and risk reduction. There is much that can be learnt in terms of risk management from the private sector insurance providers; they have a wealth of experience that can be shared, and, in this, can facilitate the provision of microinsurance policies for the poor. AIDMI have engaged in a commercial partnership with the Life Insurance Company of India to provide life insurance, and the Oriental Insurance Company Ltd. to provide non-life insurance cover under the *Afat Vimo* scheme. They also continue to raise awareness of the opportunities and benefits of insurance provision to the low-income strata of communities. There is additional scope within microinsurance to motivate private sector insurance companies to develop and provide products for low-income individuals as initiatives for their own corporate social responsibility.

### Challenges

Though defrauding is one of the most common challenges for the microinsurance sector, AIDMI has experienced only one incident of a false claim. Similarly, premium defaulting is another such challenge. The retrospective collection of premium payments from clients can be seen as a threat to the long-term sustainability of the *Afat Vimo* scheme. At present, AIDMI must



*"Victims" manage the majority of disaster recovery themselves. Microinsurance can help accelerate their efforts.*

absorb all of the operating costs of the programme, and recovers only the premium total from the beneficiaries. They must therefore shoulder all of the administration costs and costs of premium collection, field visits, supervision, and claims assistance. In terms of long-term sustainability, this means that unless the clients meet the operating costs, the scheme is not financially self-sustaining. In addition, there are a number of reasons why beneficiaries do not renew their policies. Migration, the inability to pay, and low desire to renew are believed to be factors.

On a broader scale, commitment among donors and international organisations should exist for similar risk transfer initiatives to refine and thrive. AIDMI is a core manager of the Tsunami Evaluation Coalition's forthcoming thematic evaluation on "The Impact of Tsunami Response on Local Capacities". Under this initiative, stakeholders in Maldives and Sri Lanka (in April 2006) have clearly identified the need for risk transfer. This need, however, is not articulated broadly and remains latent. The 2005 Community Survey by AIDMI and the Disaster Emergency Committee identified low levels of risk transfer awareness among communities of India, Sri Lanka and Indonesia. Organisations across the Asian Region should identify and initiate opportunities for similar experiments for transferring risk from the poor.

### **Next Steps**

However, there is clearly scope for additional capacity building exercises designed to instil in beneficiaries the long term benefits of insurance coverage, and the importance of continued coverage. Additionally, greater emphasis on adherence to the correct procedures for making claims to the insurance companies should perhaps be made to reduce the likelihood of claims being rejected which would decrease client dissatisfaction.

The *Afat Vimo* scheme has tremendous potential for rapid expansion. Currently, microinsurance coverage under the *Afat Vimo* scheme is only available to communities where AIDMI has presence. Offering a similar policy in earthquake-affected Jammu and Kashmir and tsunami-affected areas is being considered. An emergent area of experimentation and international debate, weather-indexed insurance is being explored as a means of effective management of catastrophic risk, particularly in vulnerable rural areas. Based on the round table meeting with Agriculture Insurance Company of India (AIC) and a group of farmers from Kutch, Patan, and Surendranagar, AIDMI will be covering 1000 small and marginal farmers for the period of June 2006 monsoon. In addition, AIDMI is about to launch insurance coverage for school children and school staff.

### **Conclusion**

#### **Converging interests of civil society, corporate world, and insurance regulators**

In India partnerships between the commercial sector and NGOs are increasing emerging for microinsurance provision. There is much that can be learnt in terms of risk management from private sector insurance providers. The impact of *Afat Vimo* has been strengthened through national policies that encourage private insurance companies to provide support to poor clients. The Insurance Regulatory and Development Authority also plays an important role in the provision of insurance to the poor. In March 2002, the IRDA published a set of regulations

applicable to insurance companies operating in India, entitled "Obligations of Insurers to Rural Social Sectors". Essentially, these regulations establish quotas of insurance provision to low-income clients. The quotas for provision to "disadvantaged people" are as follows:

#### Obligations of Insurers to Rural Social Sectors

**Rural areas:** density of population > 400/km<sup>2</sup> or 25% of men work in agricultural pursuits

- **Life insurance:** 5% of total policies in Year 1, up to 16% in Year 5
- **General insurance:** 2% of gross premium income in Year 1. 3% in Year 2. and 5% thereafter

**Social Sector:** unorganised workers, economic vulnerable or backward classes in urban and rural areas.

- 5000 policies in Year 1; up to 20,000 in Year 5 for both life and general insurance

Source: Roth et al. (2005) <sup>24</sup>

The establishment of such regulations has greatly increased the volume of microinsurance policies, which are being supplied to poor clients. The quota rises each year reaching a maximum of 16% after 5 years of the total number of life policies sold for life insurance, and 5% of premium income for other types of insurance. This condition has generated massive pressure on insurers, as without selling microinsurance they cannot sell their more profitable products. To date the IRDA has fined a number of insurers for failing to meet their targets. However, there have also been a number of perceived and reported problems associated with the imposition of quotas.

Pro-poor financial risk transfer initiatives combined with risk reduction measures such as *Afat Vimo* are rare in South Asia region. There is a "real" potential for disaster risk management at community level through insurance. The 2004 tsunami and the 2005 Jammu and Kashmir earthquake provides a huge opportunity for local institutions to transfer future financial risks of victims by facilitating access to the microfinance services. However, this is not easy. It is a great struggle to do such projects as pilot, even more difficult to upscale action and advocacy with government and international bi-lateral institutions. This needs planning, awareness building, suitable services, and long-term commitment. Convergence of interest and



*Tsunami recovery is a huge opportunity to transfer financial risks of the poor. Following a major disaster like the 2004 tsunami, people understand the value of insuring their assets.*

<sup>24</sup> Roth, J.; Churchill, C.; Ramm, G.; and Namerta. (2005). "Microinsurance and Microfinance: Evidence from India". CGAP Working Group on microinsurance. "Good and Bad Practices: Case Study #15". Available at: [www.microfinancegateway.org/section/resourcecentres/microinsurance](http://www.microfinancegateway.org/section/resourcecentres/microinsurance).

attention of academicians, researchers, policy makers, donors, and risk mitigation practitioners along with victim communities is highly desirable. Generating the awareness – and building the commitment – to initiate microinsurance costs money, time, and efforts. These must be found to make *Afat Vimo* suitably resourced. AIDMI welcomes inputs and ideas for recasting and up scaling *Afat Vimo*, or similar microinsurance schemes, in India and outside.

#### **4.4 Case Study 4 : Scaling Up Microinsurance: The Case of Weather Insurance for Smallholders in India<sup>25</sup>**

##### **4.4.1 Overview**

BASIX is a Hyderabad-based group of companies that began piloting a unique approach to microinsurance. Their product, offered in partnership with ICICI Lombard, offers rainfall index insurance contracts to small-scale farmers in Andhra Pradesh.

In only three years, the small pilot programme with 230 participants graduated into a large weather insurance operation. During the 2005 monsoon season, BASIX sold 7,685 policies to 6,703 customers in 36 locations in 6 states. This successful experience has sparked much broader interest in weather-indexed insurance in India.

BASIX has a mission to "promote a large number of sustainable livelihoods, including for the rural poor and women, through the promotion of financial services and technical assistance in an integrated manner." BASIX provides its rural customers with "the Livelihood Triad," which includes the following: (1) Livelihood Financial Services (credit, insurance, and savings); (2) Agricultural and Business Development Services (productivity enhancement and market links); and (3) Institutional Development Services. With 1,281 staff operating in 7 states across India, BASIX is present in more than 10,026 villages and serves approximately 200,000 customers, of whom 151,862 are active borrowers. On average, BASIX's customers have farm incomes of Indian rupees (Rs) 12,000-30,000 per year, or less than US\$1 a day.

##### **4.4.2 Why Index Insurance?<sup>26</sup>**

Index insurance is a relatively new form of microinsurance. As opposed to traditional insurance where indemnity is based on claims after losses, usually requiring adjusters for verification, the product provides insurees with payouts based on objective and independent measures of a pre-determined threshold on an index that is highly correlated with loss. A common example of an index is rainfall as recorded by a public meteorological station.

<sup>25</sup> Much of the following section is taken from a case study published by the World Bank. Their report, "Scaling Up Microinsurance: The Case of Weather Insurance for Smallholders in India", Agriculture and Rural Development Discussion Paper 36, was published in 2007 and was written by Ornsaran Pomme Manuamorn. The full version is accessible at: [http://www.climate-insurance.org/upload/pdf/Manuamorn2007\\_weather\\_insurance\\_india.pdf](http://www.climate-insurance.org/upload/pdf/Manuamorn2007_weather_insurance_india.pdf).

<sup>26</sup> This section includes information from a forthcoming publication by AIDMI, shared here for insight into the unique contribution of these risk transfer products for disaster risk management: Reynolds, T. (forthcoming). Index Insurance and Disaster Resilience: Recent Experiences and Opportunities in India. Ahmedabad: AIDMI.



Index insurance is a relatively newer type of insurance product in India. Like traditional insurance, it can help the poor by transferring the risk of asset and income losses that result from medium and large-scale hazards. Index insurance makes use of pre-determined independent measurements to calculate payouts instead of the administrative-heavy claim submission, verification and adjustment system used to determine payouts in traditional insurance. For example, in Gujarat, some farmers have purchased index-based insurance policies that provide payouts if pre-determined thresholds of rainfall are exceeded (correlated to crop losses due to flooding). Regardless of their actual crop loss, the farmers receive payments (or do not receive payments) based on precipitation measurements taken by the public meteorological association.

With traditional insurance, payments would only be made following claims and field or output inspections – a process that drives up transaction costs and can take a long time. Like traditional insurance, index-based products are designed by regulated insurance companies on an actuarial basis.

Indexed insurances are a key step forward specifically for disaster insurance. This is because indexed products have qualities that overcome some of the most significant challenges facing traditional insurance and microinsurance when they are applied to transfer disaster risk. While index insurance does not actually reduce the risk of a disaster occurring, it should, through proper pricing and design, incentivise clients to reduce their disaster risk. This has so far not been the case with traditional indemnity-based microinsurance. By de-linking losses from payouts by using an independent index, farmers still have incentives to use risk reduction measures in the hopes of saving their crop and yet still collecting an index insurance payment.

Second, de-linking losses from payouts also reduces moral hazard – the threat that policyholders will neglect their insured assets and can even intentionally increase their risk as the insurance payment will cover any losses. Third, index insurance mechanisms allow a large number of policyholders to be covered with lower administrative costs to the insurance company, thus reducing premiums. This is critical when the value of assets to be insured is low and administrative costs are more or less the same as for administering policies to middle-class urban dwellers. Fourth, compared with traditional insurance, adverse selection is reduced because policyholders seldom have more accurate information about the risk in the index than insurers. Finally, as there is no claim assessment or processing, indexed insurances can provide payment quickly after an adverse weather event – a time when liquidity is critical for affected households.

#### **4.4.3 Programme Development**

Weather risk is the predominant source of income instability for BASIX customers whose agricultural activities depend on rainfall. Like farmers, BASIX is financially vulnerable to weather risk: weather-induced crop failure, primarily resulting from rainfall deficit, often caused overdue crop term loans threatening the institution's portfolio quality. BASIX gained confidence in the insurance approach through its successful experience in livestock insurance. As a result, BASIX applied the insurance solution to the systemic weather risk affecting customers and the institution's portfolio. The main challenge was to design an innovative insurance product to protect farmers' livelihoods from the erratic nature of weather while

avoiding the inefficiencies that plague the government's traditional yield-loss insurance scheme.

Because BASIX operates in mostly non-irrigated areas where agriculture depends on the monsoon, realised rainfall during the monsoon season forms a good proxy of farm income, and therefore provides a simple and objective indicator on which to base insurance payouts for weather-induced losses.

<b>Evolution of BASIX-ICICI Lombard Weather Insurance Product</b>			
<b>Criteria</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Sale Locations	The product is sold in only one district (Mahahbubnagar) with only one reference weather station at the district level.	The product is sold in three districts with 10 product variations, linked to five weather stations. Three out of these stations were block-level (Mandal) weather stations. Excess rainfall product was introduced in one location.	The product is made available across BASIX operational areas spread over six states where rainfall data will be available. One product is designed for each agro-climatic region, which covers the minimal risk for all the principal rain-fed crops in the region.
Premium	Premium is charged per farmer based on the size of the land holding and proportionate risk coverage. Thus, there was one rate for farmers with land holdings of fewer than 2 acres, between 2 and 5 acres, and more than 5 acres, respectively.	The premium is charged on a per acre basis, making the product linked to the quantum of agricultural activity rather than loan size and gives the farmer the flexibility to buy multiple units based on affordability.	BASIX retains the per acre system from 2004.
Product Structure	The product has one phase of coverage for the entire monsoon season.	The product has three phases with separate coverage for sowing, growth, and harvest windows. Claim payout is made after each of the three stages of the crop season.	BASIX adds two new features to the 2004 design based on farmers' feedback: (1) Minimum rainfall level (2 mm per day) is considered for arriving at the rainfall received during a period. Rainfall of more than 60 mm is excluded from the aggregate. (2) The starting date of the

Criteria	2003	2004	2005
			insurance period is determined dynamically based on the minimal accumulative rainfall required to start sowing activity (50 mm) The coverage will start automatically on July 1, 2005, if accumulative rainfall has not reached the 50 mm mark.
Payout	The loss payout is made as a function of deviation in percentage from the threshold rainfall index.	The loss payout is made a function of per millimetre deviation from the threshold rainfall index. The farmers were able to grasp this payout structure in absolute deviation rather than as a percentage deviation.	BASIX retains the per millimetre deviation system from 2004.
Process	BASIX operates the sale of weather insurance through a manual, paper-based system.	The manual, paper-based system is continued.	The operational processes have been designed to reduce transaction costs, automate information processing, and simplify premium routing process.
Communication	Product literature is delivered to customers in vernacular, resulting in good awareness and grasp of the product by customers.	Continued vernacular communication regarding product details.	Continued vernacular communication regarding product details.
Subsidy	There was no subsidy. Farmers paid the premiums entirely out of their own pockets.	There was no subsidy.	There was no subsidy.

The pilot experience proved to be valuable for BASIX and ICICI Lombard in understanding the crop-rainfall relationships and the product design. In addition, interactions with farmers

indicated the potential for commercial expansion and highlighted the necessary factors in offering the right weather insurance products to farmers. In the 2005 scaling-up phase, BASIX and ICICI Lombard further improved the product by adding new features recommended by farmers. These new features included (1) dynamic starting dates, and (2) the exclusion of daily rainfall of less than 2 millimetres (mm) and greater than 60 mm from the cumulative total that determines the payout. Another important change was the contract application. Instead of crop-specific policies, BASIX began to sell area-specific generic weather insurance products that were suitable for all principal rain-fed crops within the same agro-climatic region. These products were sold to farmers in 36 locations in 6 Indian states. BASIX planned to reach a minimum goal of 5,000 policies, with a target of 10,000 policies. By year-end, 7,685 policies were sold.

#### 4.4.4 Product Marketing and Delivery

Villages chosen for marketing had to satisfy four main criteria: (1) the presence of BASIX customers residing in the village to ensure some degree of trust in the institution; (2) preferably 200 to 300 acres of groundnut and/or castor bean in the village to ensure a market for the weather insurance; (3) a reasonable number of small- and medium-size farms with 2 to 10 acres of land each; and (4) a village location less than 20 kilometres away from the nearest rainfall reference station, to reduce the basis risk born by the buyer.

Several villages matched these criteria; however, because of the late finalisation of the insurance policy's design, the product had to be marketed in a short time. As a result, not all of the villages that BASIX wanted to reach were actually targeted. BASIX had only 10 days to market and sell the insurance product before the start of the kharif season and thus of the coverage period.

The product was marketed by first talking to a trusted opinion leader or progressive farmer in the village and explaining the insurance product to him or her. The selected leader or farmer would motivate the village and inform fellow villagers about the product and the upcoming marketing meeting, which would occur a few days later. Most people who heard about the meeting decided to attend; of those, 35 percent attended because they trusted BASIX and another 35 percent because friends and neighbours attended. A list of the attendants was made at the marketing meeting. After a general introduction to the insurance products at the meeting, BASIX representatives would visit interested attendants in their home. Policies were sold at the meeting and during these home visits. However, only 27 percent of the buyers purchased the insurance during the marketing meeting. Apart from the initial meeting with the selected motivator, BASIX agents would spend one day in each village for marketing and sales.

In 2004, the insurance product covered three periods and payouts were decided by the end of each period. Payouts could take two forms: (1) a payout per millimetre of deficient rain or (2) a lump-sum pay out. These two options were provided to tailor the product as carefully as possible to the farmers' situations, but the options required considerable explanation. Meeting participants understood the crop to which the rainfall insurance was linked and the premium and payouts, but they did not understand the trigger levels. In fact, insurance trigger levels are expressed in millimetres of cumulative rainfall, but most farmers do not understand the concept of a millimetre. Most farmers determine when to sow by analysing the moisture in the ground, and, indeed, only 10 percent were able to estimate in millimetres the minimum accumulated rainfall required to sow.

#### 4.4.5 Expected Weather Insurance Impact

Because the product is newly introduced and buyers may not fully understand its potential, its impact is unlikely to be instantaneous. Therefore, future rounds of data collection will be necessary to determine how the availability of a formal insurance affects risk-coping strategies and the informal insurance mechanisms of the households.

In theory, with the introduction of formal insurance, the crop mix should change because cash crops, which were profitable but risky, will now be safer. For those who understand the potential for hedging risk, a shift in the cropping patterns toward the insured crops is expected. By reducing the degree of risk in agricultural production, farmers will be less apt to resort to ex ante risk-coping mechanisms. Increased specialisation and higher profits are also expected, because farmers will focus on maximising the output of the insured crop, rather than on diversifying the weather risk through the cropping system. The analysis finds some evidence in this regard, especially among those who have purchased other forms of insurance and thus understand their benefits. But overall, the results are rather weak.

The best evidence that the product is attractive comes from the fact that most farmers in treatment villages reported that they would like to purchase the insurance for the next kharif season in June 2006. Once the benefits of the product are fully understood, farmers will be able to alter their production strategies toward maximising output, rather than diversifying risk, and to shift their demand for credit from consumption loans to investment loans. This shift is likely to result in increased specialisation and investment, and to contribute to increased profits and the well-being of the rural population.

#### 4.4.6 Lessons for Up-scaling Weather Insurance

Several factors account for BASIX's ability to dramatically scale up its weather insurance business. First, the pilot stage was used not only as a feasibility experiment but also as a platform to raise customer awareness and improve the product. As a result of the pilot programme, BASIX was able to achieve the following: (1) design an economical product that suits the weather risk management needs in different rural areas; (2) devise an effective product communication strategy that sustains and boosts customer demand; and (3) make the necessary trade-off between product specialisation and scalability.

Second, BASIX's holistic approach to livelihood promotion contributes directly to the capacity to deliver a large number of weather insurance policies to rural customers. BASIX takes advantage of its existing strong delivery channel by adding weather insurance to a comprehensive set of livelihood services. This maximises staff productivity and cost-effectiveness while increasing the impact of microinsurance in improving farmer livelihoods.

Third, scalability is a product of BASIX's consistent attention to details and of the effort to convert the product details into the necessary administrative and technical infrastructure. Such infrastructure is instrumental to the weather insurance process, which targets smallholder farmers, requiring the capacity to process small but critical details.

BASIX identifies the following issues as major challenges in further expanding the weather insurance business. First, BASIX and partner insurance companies must work together to

formalise a multiyear continuity plan to ensure common speed and matching energy in the business expansion. Second, as customer demand increases, BASIX must seek to build partnership with multiple insurance companies to overcome the underwriting limitations naturally incurred by reliance on one company. Third, there is a need for more investment in the network of weather stations throughout the country, especially in distant rural areas. The Indian government, private companies, and insurance companies should invest in the weather data infrastructure to facilitate the growth of the domestic weather risk market and the placement ability of domestically underwritten weather contracts in the international markets.

## 4.5 Case Study Synthesis

### Microinsurance as a Tool for CBDRR

The case studies of products offered by Tata-AIG, SEWA, AIDMI, and BASIX demonstrate that by transferring risk from policyholders to insurance markets, microinsurance serves as a unique tool for protecting the poor in India from the financial implications of natural hazards. Though a range of strategies are currently used by organisations to address disaster risk, microinsurance is a step ahead in reducing the burden facing poor households. Requirements of India's Insurance Regulatory and Development Authority stipulating quotas for service to social and rural sectors have initiated a range of pilot microinsurance initiatives that target poor clients. These requirements have encouraged the development of risk management tools that integrate local community development with formal insurance protection. Beyond the products themselves, microinsurance delivery systems used in the case studies have been offered as complements to other social/economic services that increase access to capital and may reduce risk through livelihood opportunities

### Products Offered

The case studies demonstrate that key assets of the poor – including health, life of income-earning family member, home, and livelihood tools – are insurable. By transferring some financial costs associated with the loss of these assets, microinsurance products can minimise the impact of disasters on the poor. As the case of *Afat Vimo* shows, specialised products can also be designed to cover policyholders and their assets against a range of natural and man-made hazards.

### Delivery

To minimise the insurer's exposure to adverse selection, three of the four microinsurance cases examined deliver services to members of groups that were not formed to access insurance. SEWA offers VimoSEWA to its members; BASIX focuses on those involved in its microfinance activities; AIDMI offers their products to members of CCISB. Using such membership criteria has helped keep products affordable to the poor. The use of microinsurance can also encourage additional "financial literacy" among the poor as receipt of payments often requires creation of bank accounts. In the case of the BASIX weather insurance product, payouts are triggered by rainfall thresholds and time-consuming verification procedures are avoided.

### **Benefits for Providers and Clients**

In the case study examples, insurers found several benefits of offering microinsurance products. These include increasing corporate social responsibility, expanded marketing to new classes of clients, anticipated increases in profits accessing new markets, and strengthened relations with the IRDA. Products that are offered as complements to microfinance programmes are further believed to protect loan portfolios by decreasing the risk of disasters causing client default. For policyholders, microinsurance offers benefits beyond the transfer of financial risk, including strengthened connections with social service providers.

### **Innovations**

The case studies demonstrate that efforts to insure large numbers of poor households have resulted in new approaches to selling insurance. Creative products have been developed that simplify transactions and manage information efficiently. In the case of weather insurance, the challenges of moral hazard and adverse selection are also reduced. Further, through effective design, weather insurance clients retain incentives to reduce their risk – overcoming the challenge that insurance does not actually reduce risk but only transfers it. As microinsurance products in India mature, these factors are likely to combine to produce additional microinsurance products that are financially viable and available to a large number of poor households.

# Facilitator's Note

## 1. Suggestions for Facilitators prior to Training

Although the most effective trainers are able to address the emerging needs of trainees in a flexible manner, the following notes offer a basic outline of activities that TLC facilitators may use to lead trainings. To prepare for training, facilitators may find it useful to:

- Review the Module Learning Objectives listed above,
- Review the Suggested Methods and Activities listed below,
- Assess the anticipated knowledge needs, interests, and constraints of trainees,
- Identify additional potentially effective activities suitable for their particular trainees,
- Review related background literature on Microinsurance in India, this can include but is not limited to the resource material listed at the end of this document and the modules,
  - o Prepare your own notes so that you may convey the relevant information in a way that is comfortable for you.
  - o Do not feel constrained by the information on the slides – they are merely a guide and you may adapted them for your needs
- Prepare materials for the training, including:
  - o Powerpoint or other presentation materials including revisions if desired
  - o Print-outs or any other necessary handouts
  - o Tools and props needed for activities
  - o Rewards or treats to encourage involvement and participation
- Ensure that all arrangements regarding venue are prepared
- Ensure that the training duration is appropriate for material to be covered
- Be familiar with the SWOT analysis tool and how it can be applied ([http://en.wikipedia.org/wiki/SWOT\\_analysis](http://en.wikipedia.org/wiki/SWOT_analysis))

## 2. Facilitator Requirements during Training

**Total Time:** Approximately 1hour 30minutes

### Items and Materials needed:

- PowerPoint presentation and related projection equipment,
- Whiteboard and marker OR blackboard and chalk,
- Module materials,
- Pens and notepads for participants,
- Your own notes based on those materials,
- Rewards for participation,



- Blank name badges,
- SWOT analysis worksheets

### 3. Suggested Methods and Activities

Spend the first 5 minutes explaining the purpose of the module and introducing the titles of the four case studies. 20 minutes should be spent on the presentation of each case study (so approximately 5 minutes per slide).

#### 1st Case Study:

The Tata-AIG (credit Life) case focuses on the poor and rural areas. The most unique feature of the case is its unique delivery model. It is also promoted as an example of corporate social responsibility (CSR). This example should give participants a glimpse of how CSR initiatives can help the poor in India transfer their risks.

#### 2nd Case Study:

Microinsurance at SEWA has a long history. The Vimo SEWA (credit life) example has many valuable lessons to offer. The key feature of this case is the full-service partner-agent model and a massive scale.

#### 3rd Case Study:

The *Afat Vimo* (non-tied, life and non life) initiative is administered by the AIDMI. Use the supporting documents about the initiative to explain the activities and the areas of good practice. This example has a strong focus on disaster victims and CBDRR. Special attention is given make the microinsurance scheme affordable to the poor.

#### 4th Case Study:

The BASIX indexed weather case is an unique example of an indexed insurance product for microfinance participants in Tamil Nadu. Explanation on the unique aspects and rapid roll out of the scheme will help participants understand the usefulness and relevance of indexed schemes in India.

The case studies should consume all of the allotted time for this module. If, however, you find that you were able to cover the examples valuable and you find yourself with a spare 10 minutes, there following a valuable short activity you can lead.

#### End Activity - SWOT analysis:

Form the participants into 4 groups and allocate one of the case studies to each of them. Hand out a blank SWOT sheet to each group and explain the purpose of a 'Strengths, Weaknesses, Opportunities and Threats' analysis. In the remaining time they should fill out their forms with suggestions in the four categories for their particular case study.

## 4. Presentation Guidelines

"The following presentation guidelines are intended as a resource that may be adapted for training facilitators that are teaching this module. They may be used to create a visual presentation or handouts for participants."

### Objectives

By the end of this module you should be able to:

- Explain four MI policies currently used in India and how they address CBDRR
- Identify central strengths and weaknesses, opportunities, and threats of each policy for CBDRR
- Build on these case studies with ideas for your constituents

### Contents

- I. Tata AIG (Credit Life)
- II. VimoSEWA (Credit Life and Credit Non-life)
- III. *Afat Vimo* (Life and Non-life)
- IV. BASIX (Indexed)

#### I. Tata AIG (Credit Life)

- Required to service poor and rural areas
- Saw it as opportunity to:
  - Fulfill of CSR
  - Enter a new market
  - Develop good relations with the IRDA
- One department develops, sells, and services all MI products
- Developed unique micro-agent model

#### Micro-agents and CRIGs

- Most unique aspect of Tata-AIG product: micro-agent delivery model
- Community Rural Insurance Groups (CRIGs)
  - Consist of ~ 5 Self Help Groups (SHG) members
  - One head, trained and licensed as an agent
  - Involved in promotion, sales, premium collection, and record keeping.
  - Monitored by NGO
  - Receive commission, bonuses, and incentives.

#### Tata-AIG: Lessons and Good Practice

- Partner-agent model can inhibit growth
- Innovation: developing a unique relation model: Local NGOs and MFIs that:
  - Provide information about local communities

- Build trust with local communities
- Serve as paid intermediaries for delivering and servicing policies.
- Structure of the organisation unique for MI delivery.

## **II. VimoSEWA (Credit Life and Credit Non-life)**

### *VimoSEWA: An Overview*

- Began in 1992 with mandatory membership among women involved in specific microfinance schemes.
- Evolved through several models: partner-agent > full service.
- Now covers +120K members against multiple perils.

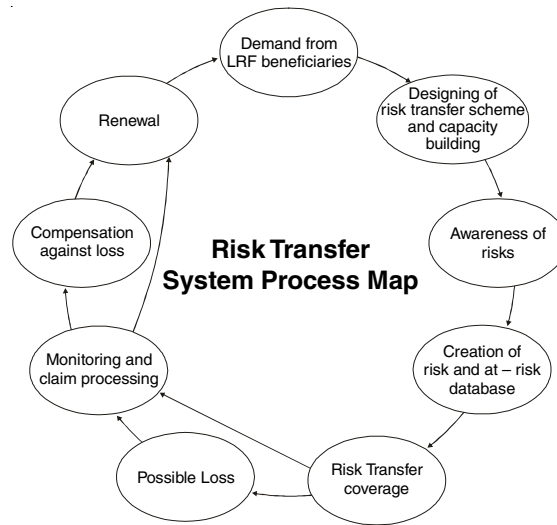
### **VimoSEWA: Lessons and Good Practice**

- Reinsurance and provision through insurers may be safer than self-insuring.
- Microinsurance department should be managed independently, even if within a larger organisation.
- Focused management and an independent business plan have allowed more consistent growth.
- Training staff has been key.
- Policies should be revised annually to remain innovative.

## **III. Afat Vimo (Life and Non-life)**

### *Afat Vimo: An Overview*

- More than a year after the 2001 Gujarat earthquake, a majority of relief beneficiaries were still exposed to disaster induced financial losses.
- Only 2% of those surveyed had insurance.
- AIDMI developed a MI scheme to augment work on livelihood recovery and address the demand.
- Developed *Afat Vimo* to cover multiple hazards.
- Currently 5000+ policyholders covered against: cyclone/hurricane, flood, earthquake, fire, explosion, riot, malicious damage, aircraft damage, tempest, inundation, lightning, implosion, strike, impact damage, storm, typhoon, tornado, and landslide.

**The Afat Vimo Process****Afat Vimo: Lessons and Good Practice**

- Disaster insurance can accelerate recovery
- *Afat Vimo* has resulted in less indebtedness among beneficiaries
- Receipt of due indemnity is more dignified than waiting in line for assistance

**IV. BASIX (Indexed)**

BASIX: An Overview

- Unique indexed insurance product for MFI members in Tamil Nadu.
- Index insurance mechanism: payouts if pre-determined thresholds of rainfall are exceeded.
- No moral hazard,
- Simple contract, no claims processing:
  - Regardless of their actual crop loss, the farmers receive payments (or do not receive payments) based on precipitation measurements taken by the public meteorological association.
- +6.7K policyholders within 3 years of product launch.

**BASIX: Lessons and Good Practice**

- Scalability has resulted from:
  - Product simplification
  - Development of staff qualified to work with insurance
  - Established rural outreach
  - Process mapping for improved management
  - A self-developed information system to retain large volume of details
- Challenges:
  - Expanding to multiple insurers
  - Offering indexed products outside established MFI infrastructure.

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