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CLIENT VALUE SERIES

Brief No. 3

Creating an enabling environment to improve client value

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This brief provides recommendations for policy-makers, regulators and funders on how to create an enabling environment that promotes client value. The insights are based on new impact evidence of microinsurance and the experience of countries where governments and donors are using insurance related interventions to achieve public policy objectives or develop the market. The brief presents ten blueprints to guide government and donor decisions and actions across the three main dimensions 1) insurance promotion through public-private partnerships (PPPs) and subsidies; 2) investment in infrastructure and client education; and 3) regulation and supervision.

others. Yet they are the least able to cope when crises occur. Microinsurance holds the promise of breaking this perpetuating cycle of vulnerability and poverty. This claim is no longer theoretical. Evidence from rigorous studies summarized in Brief 1 demonstrates that microinsurance can benefit households across multiple dimensions. Microinsurance can improve financial protection, reduce vulnerability and improve health for low-income households.

The benefits of insurance extend beyond low-income households to their community, region and country. Governments can use insurance as a vehicle to achieve public policy objectives, such as achieving universal health coverage and improving food security (Box 1).

KEY LESSONS

Use microinsurance to achieve public policy objectives

Low-income groups, many of whom work in the informal economy, are more vulnerable to risks than

¹ This brief is the third in a series of three briefs on client value in microinsurance. The series is produced by the ILO's Microinsurance Innovation Facility and the MicroInsurance Centre. In the introductory letter to the series we explain our research methodologies. Brief 1 summarizes evidence and Brief 2 provides strategies for practitioners to improve client value. All briefs can be accessed via our website. Camyla Fonseca and Aparna Dalal work for the ILO's Microinsurance Innovation Facility. The authors would like to thank Michal Matul, Craig Churchill and Michael J. McCord for their detailed feedback on the draft; and all the Facility staff and partners for offering their insights.

BOX 1 INTEGRATING SOCIAL PROTECTION AND FINANCIAL INCLUSION

The International Labour Organization (ILO) is calling for countries to define social protection floors that guarantee minimum social security benefits – such as universal health coverage and income security – as soon as conditions allow (ILO, 2012). Microinsurance can be an integral means through which to extend or supplement social protection benefits, particularly for the working poor. Not only can it support the distribution of social protection benefits to under-served populations, but it can also supplement the basic benefits of social insurance schemes. It is also a tool for achieving universal health coverage, a system in which everyone in a society can access the health-care services they need without financial hardship (Kimball et al., 2013). By integrating social protection with financial inclusion, it is possible to increase the effectiveness of both, enhancing the ability of workers in the informal economy to cope with the costs associated with the illness or death of breadwinners, the theft of productive assets and the destruction wrought by disasters.

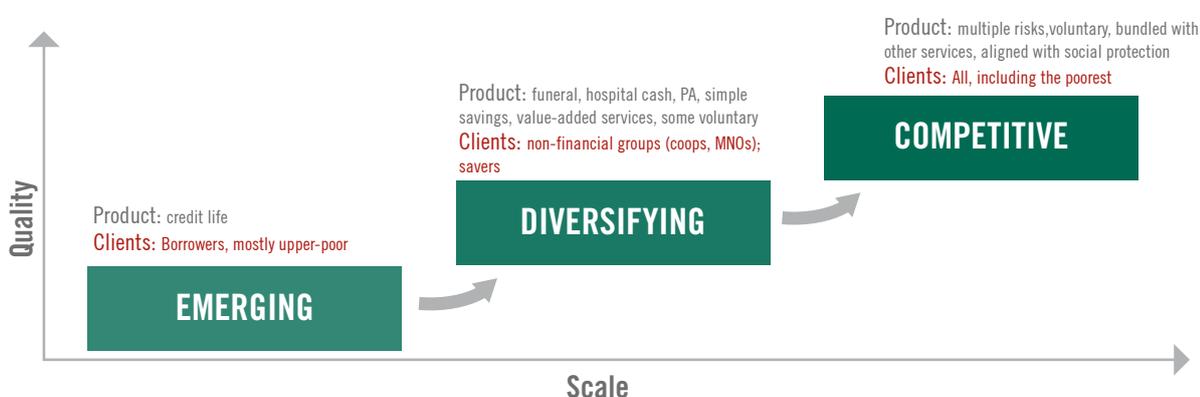
Proactively support the development of an effective insurance market for the poor

By adopting a proactive approach to market development, policy-makers, regulators and funders can support the development of an effective insurance market for the poor. In many countries, market failures restrain the offer of insurance as a risk management tool for low-income households. And because in most developing countries the market is tailored largely to the needs of higher-income or corporate segments,

it is expected that markets will take a long time to serve the poor, if they do so at all. By supporting interventions (such as investing in infrastructure) that promote market development, actors can help to create an insurance sector that offers value to its low-income clients.

Before intervening, public actors must take into account the stage of development and adapt their plan of action to their context. Countries are at different stages of development, facing different challenges (Figure 1). Even in markets that have developed microinsurance products, not all of them will have

FIGURE 1: STAGES OF MARKET DEVELOPMENT



the same impacts, or offer the same value to clients: design and client experience matter. As shown in Brief 2, value is multi-dimensional, often transcending the quantified benefits of the insurance payout and costs of the premium paid, and can be improved over time. While insurance providers play a significant role in improving value, regulators and supervisors also have a responsibility to implement joint efforts that contribute to the development of a competitive market.

The ultimate goal is to have quality at scale, where large numbers of low-income households have access to good quality insurance products from a variety of insurance providers. It is difficult to achieve both the quality and scale dimensions right from the beginning. Initially, it may make sense for public actors to push for scale so as to secure the interest of the insurance industry, and then gradually introduce regulation and policies to promote quality. However, this is a fine balance,

FIGURE 2: INTERVENTIONS FOR CREATING CLIENT VALUE



as poor products can hurt the insurance market for generations, so basic client protection measures, such as market conduct regulations and dispute resolution mechanisms, need to be developed, implemented and enforced from the start.

The ultimate objective is the same

Though policy-makers, regulators and supervisors may have different proximate objectives (public policy or market development) when investing in microinsurance, the ultimate goal is the same: reducing the vulnerability of low-income clients by providing them with access to equitable and efficient risk management instruments. Interventions designed to achieve one objective often lead to achievements in the other. A Public-private partnership (PPP) with the private health insurers intended to improve the health of low-income constituents might also result in improved capacity of the insurance sector to serve the poor and near-poor. The engagement between the different stakeholders in a country is critical to the development of a holistic and effective risk management solution.

Types of intervention

As outlined in Figure 2, the brief identifies three main types of interventions available: 1) insurance promotion through PPPs and subsidies; 2) invest-

ment in infrastructure and client education; and 3) regulation and supervision. By performing specific actions in these dimensions, public actors and funders can make products appropriate, accessible, affordable and responsive, thereby improving the value of risk management tools for clients. Better risk management, as discussed, can ultimately contribute to a number of public policy objectives and to the creation of an effective insurance market for low-income households.

TEN BLUEPRINTS TO CREATE AN ENABLING ENVIRONMENT SO AS TO IMPROVE CLIENT VALUE

The brief presents ten blueprints to help public actors and funders create an enabling environment so as to improve client value. The blueprints are divided along the three dimensions of intervention identified in the previous section. Blueprints 1 to 5 relate to public policy; blueprints 8 to 10 relate to market development; and blueprints 6 and 7 relate to both objectives. The goal is not to offer an extensive list of interventions, but rather to offer some examples of areas where these stakeholders can act and rethink their role in their own contexts.

INSURANCE PROMOTION THROUGH PPP AND SUBSIDIES

- 1** ESTABLISH EFFECTIVE PUBLIC-PRIVATE PARTNERSHIPS (PPPs)
- 2** INVEST IN SMART SUBSIDIES
- 3** LEVERAGE INSURANCE TO EXTEND HEALTH SOCIAL PROTECTION
- 4** LEVERAGE INSURANCE TO ENHANCE FOOD SECURITY
- 5** LEVERAGE INSURANCE AGAINST LOSSES FROM NATURAL DISASTERS

INVESTMENTS IN INFRASTRUCTURE AND CLIENT EDUCATION

- 6** INVEST IN INFRASTRUCTURE
- 7** MAKE SURE THAT CONSUMERS UNDERSTAND INSURANCE

REGULATION AND SUPERVISION

- 8** ADJUST INSURANCE REGULATIONS
- 9** GRADUALLY FOSTER CLIENT PROTECTION
- 10** ALLOW SPACE FOR INNOVATION

EXPERTISE

PPPs allow governments to leverage the expertise of the private sector so as to improve the quality and efficiency of insurance. A key advantage of PPPs is that they combine the different skills and resources of various partners in innovative ways. Governments can focus on policy, planning and regulation, while leveraging the insurance industry's technical and management capabilities.

In 2010, the Colombian government launched a pilot to provide microinsurance as part of its national financial inclusion programme *Banca de las Oportunidades*. The insurance company selected in the tender process, *Positiva*, designed the life insurance product and assumed the risk. The government provided premium subsidies, data on the target group and took charge of the distribution process. *Positiva* recognizes the advantages of using existing government platforms for distribution, considering it almost indispensable. Government programmes are instrumental in spreading information, gaining the confidence of beneficiaries and helping in the distribution process. The pilot reached 50,755 beneficiaries.

COST-EFFECTIVENESS

Another key advantage of PPPs is that they can improve the offer of risk management mechanisms without burdening public finances. By allowing for the sharing of risks and responsibilities, PPPs can leverage partners' expertise, enhance management and reduce costs. Besides, governments' budgets are better equipped to handle predictable expenses (e.g. premiums) than unpredictable ones (e.g. claims payments).

In India, the National Agriculture Insurance Scheme subsidized crop insurance by providing stop-loss reinsurance for any claims in excess of premiums collected; however, this was done by raising finances to cover claims ex-post. This practice exposed the government budget to significant risk and delayed claims payments as money had to be found after a loss occurred. Recognizing these risks, the Government of India, along with the World Bank, redesigned the scheme. The new system transfers the liability upfront to insurers and leverages their administrative expertise. Insurers receive premiums (collected from farmers and premium subsidies from the government) and are responsible for carrying the risk.

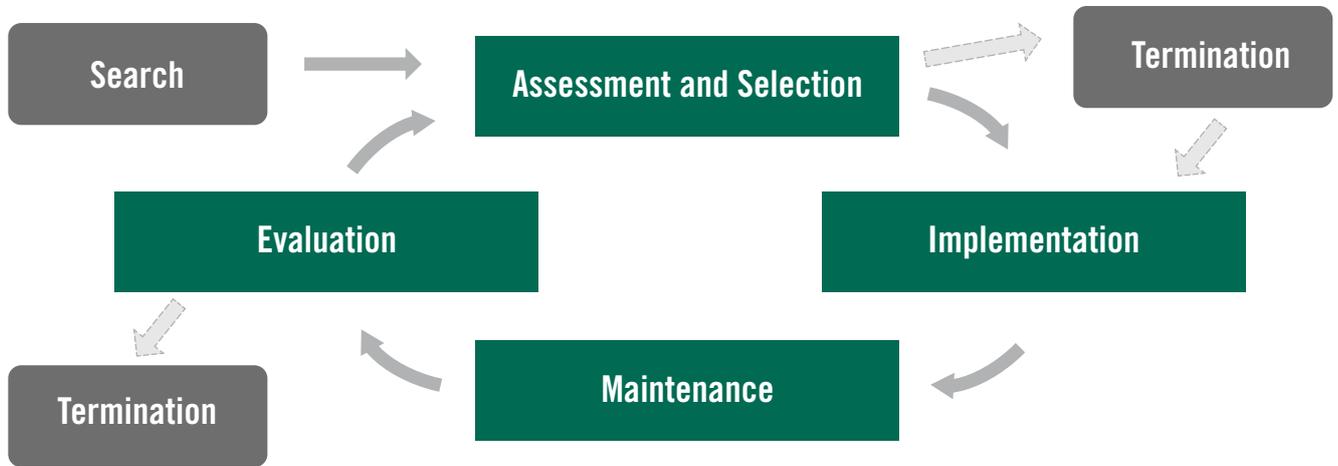
DEMONSTRATION EFFECT

A successful PPP scheme can also be a powerful mechanism to generate a demonstration effect. It can help to show the benefits of investing in microinsurance and stimulate other private actors and stakeholders to invest in products that are relevant for the low-income population, either through partnerships with the public sector or by themselves.

Since 2007, *PharmAccess*, a Dutch not-for-profit organization dedicated to improving access to good-quality health care in sub-Saharan Africa, has partnered with not-for-profit organization Hygeia Community Health Care (HCHC) in Nigeria to pilot a comprehensive, but subsidized, health insurance product. The pilot helped beneficiaries to learn about insurance principles and allowed health-care providers to get used to new payment systems and reporting requirements and learn about the health needs of their target population. The programme had a positive impact on health-care use and financial protection. The use of health-care increased by 70 per cent, use of private health care increased by 150 per cent, use of modern medicine by 50 per cent and out-of-pocket spending decreased by 40 per cent for the insured (Gustafsson-Wright et al., 2013).

When *Rashtriya Swasthaya Bima Yojana* (RSBY), a cashless health microinsurance program in India, was launched by the Ministry of Labour and Employment, only two insurance companies were collaborating with the scheme. However, since then, this number has increased to 15 across 28 Indian States and Union Territories.

FIGURE 3: THE PARTNERSHIP LIFECYCLE



Read more: Public-private partnerships in microinsurance, Microinsurance Network Discussion Paper 1
 Managing microinsurance partnerships, Microinsurance Paper No. 15
 Making PPPs work in microinsurance, Microinsurance Paper, forthcoming



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Good partnerships and monitoring mechanisms are key factors in the success of a PPP. A successful PPP requires alignment of interests and good management and monitoring tools. Partnerships can be difficult to manage, as partners have distinct (sometimes conflicting) priorities and very different organizational cultures. Partnerships may fail when government priorities change with the political climate. Frameworks, such as the partnership life cycle, provide a useful tool to analyse and improve existing and future partnerships in microinsurance. Strong monitoring mechanisms and proper termination procedures can reduce the risk of adverse impact on clients.

BENEFITS

FOR CLIENTS: Access and value

FOR GOVERNMENTS/FUNDERS: Stronger capacities at different government levels, faster project implementation, better risk allocation, enhanced public management, reduction of costs and achievement of public policy objectives



EQUITY AND EFFICIENCY

Smart subsidies are designed with a well-defined purpose, clear exit strategy or long-term financing strategy and good monitoring and evaluation systems. They can be used to improve equity and correct market failures in the insurance sector. For example, premium subsidies can target excluded groups, such as workers, in the informal economy, or children and the elderly, who are particularly at risk. Subsidies can also be used to correct market failures that hinder the development of the insurance sector. Market inefficiencies, such as high fixed costs or lack of information about risk profiles, may cause underinvestment by insurers.

In Ghana, outpatient use of health-care services increased from 0.6 million in 2005 to 25.5 million in 2011, while inpatient use increased from around 29,000 in 2005 to 1.4 million in 2011. Despite its remarkable achievements in terms of increased health-care service use for the population as a whole, Ghana's National Health Insurance Scheme (NHIS) still needs to improve its targeting mechanisms in order to fulfill its mission: to ensure equitable universal health-care access for all residents of Ghana. The poorest residents of Ghana are still not benefiting as they should.

TARGETING

Good targeting mechanisms are crucial to the success of a subsidized scheme. Otherwise, benefits can go to individuals who do not need them or who are not a priority at that moment. If targeting is too difficult, or if a large share of the population is being targeted, then it may be better to provide universal subsidies, targeting the entire population.

In India, RSBY operates through a network of state agencies, called state nodal agencies. They are responsible for contracting insurance companies, which then retain responsibility for contracting the provider network, educating and enrolling beneficiaries and processing claims. Once the decision to implement RSBY is taken by a state, the state nodal agency is set up. The state nodal agency collects data and prepares the list of households that are classified as below the poverty line (BPL), which is provided to the insurers selected by the state. An enrolment schedule for each village, along with dates, is prepared by the insurance company, with the help of district officials. Insurers are required to hire intermediaries to reach out to the beneficiaries before enrolment. In addition, the BPL list is posted in each village at the enrolment station and prominent places prior to the enrolment camp, to guarantee that individuals will have enough time to prepare.

MONITORING AND EVALUATION

There is no way to ensure efficiency without a clear objective and target for the subsidies, indicators to measure success and cost, and a proper monitoring system to collect information.

The National Health Scheme in Colombia has faced monitoring challenges due to the lack of managerial infrastructure, institutional capacity, monitoring systems and information flow from both the government and insurers. These monitoring gaps are used by individuals at many levels as opportunities to create mechanisms to defraud the system through intermediary companies, forgery or stealing. Other examples of fraud include charging the government for services that were not delivered, or for procedures that were supposed to be included in the amount paid as capitation (a payment arrangement for health-care service providers whereby an amount is paid for each enrolled person assigned to them, per period of time, whether or not that person seeks care). These flaws have led to massive debt within the system, undermining the sustainability of the scheme and resulting in the entire model being reconsidered by the Colombian government.

FIGURE 4: SUBSIDIES IN AGRICULTURAL AND HEALTH MICROINSURANCE

<i>Rationale for the subsidy</i>	PROMOTE EQUITABLE COVERAGE		OVERCOME MARKET INEFFICIENCIES		
		For those with low incomes	For at-risk groups	To address limited knowledge of externalities	To address asymmetric information between players
<i>Long-term investment (universal or targeted)</i>	Premium subsidies to make insurance affordable for the poor	Free health insurance for children	Free health insurance for highly infectious diseases	Premium subsidies to expand risk pool for health insurance	Subsidy for reinsurance
<i>Investment of limited duration</i>	Investment in Awareness-raising campaigns		Investment to improve insurance literacy	Investment to provide information (e.g. area yield estimate) on agricultural conditions	Investment in technological capacity to manage claims

Read more: Using subsidies for inclusive insurance: Lessons from agriculture and health, Microinsurance Paper No. 29



The business case for health microinsurance in India: The long and winding road to scale and sustainability, MILK, MicroInsurance Centre

“Doing the math” – Health insurance and chronic disease in Nigeria, MILK Brief No. 24, MicroInsurance Centre

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Subsidies can be used to stimulate demand. By encouraging take-up, price subsidies can enable individuals to learn about a financial product. However, financing is only advisable if there is a plan to use government revenue to finance them in the long run, since international experience shows that once premium subsidies are implemented, it is very difficult to cancel them. Also, long-term subsidies may hinder other opportunities to provide value, as different providers may not be able to compete with a subsidized product. In the case of HCHC in Nigeria, the insurance has been subsidized by PharmAccess since 2007, with the intention of enabling households to learn about the benefits of insurance before removing the subsidies in subsequent years. At the end of 2012, premium contributions from the insured represented 16 per cent of total premium in Lagos and 6 per cent in Kwara. Increasing the level of contribution has been challenging and Hygeia has faced resistance from clients at each increase.

Commercial health insurance programmes that wanted to improve on the RSBY product were squeezed out of the market because they could not compete with the subsidized premium rates of RSBY.

BENEFITS

- FOR CLIENTS:** Access to affordable products
- FOR GOVERNMENTS/FUNDERS:** Improving equity and efficiency



FOUNDATION

In many countries, health microinsurance schemes – and especially community-based health insurance (CBHI) schemes – have emerged as a substitute for national coverage, often driven by a social objective for greater inclusion of vulnerable populations. As government willingness to improve access to health financing for informal workers has grown, some countries have used CBHI schemes as the foundation to develop a health financing strategy. With this approach, CBHI schemes continue to exist, but under the government’s mandate.

In Thailand, CBHI schemes are the foundation of its new universal health coverage scheme. CBHI schemes began to emerge in the late 1970s, alongside government schemes for the formal sector, civil servants and the poor. The CBHI schemes evolved into a Voluntary Health Card Scheme in 1983, which offered a supply-side subsidy and was open to individuals who were ineligible for other government programmes. By 2001, there were four different schemes, all operating with different financial arrangements and benefit packages. Approximately 30 per cent of the population (18 million people) was still uninsured, mostly informal workers. The Ministry of Public Health combined the beneficiaries and brought them under the umbrella of the new Universal Coverage Scheme. This scheme was mandatory, offered a full subsidy and allowed Thailand to quickly scale up coverage so that it virtually covered the entire population.

PARTNERSHIP

Since service delivery is such a critical component of health insurance, governments can delegate key insurance functions to better positioned partners in the health sector.

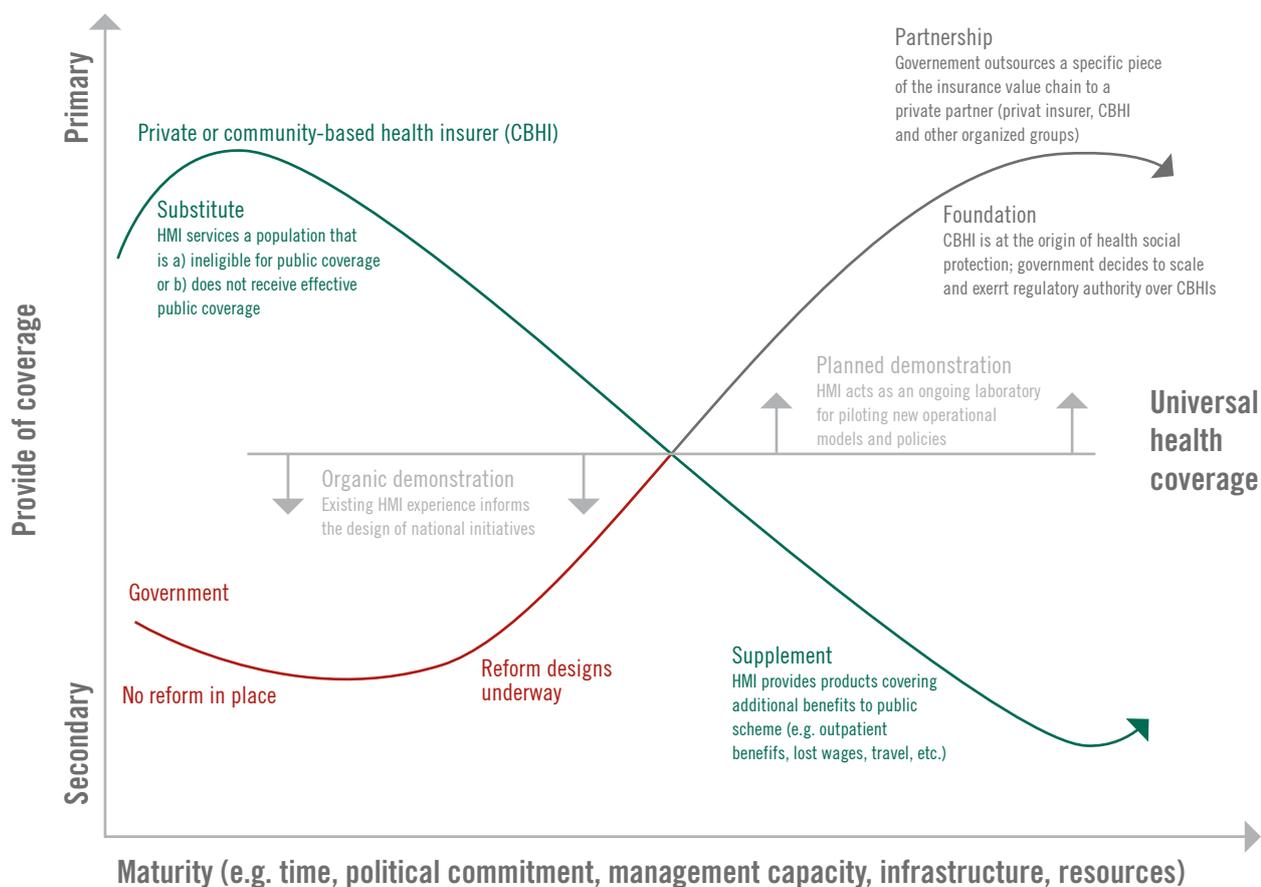
In Kenya, the public scheme known as the National Hospital Insurance Fund (NHIF) has been collaborating with partners such as NGOs, MFIs and savings and credit cooperative societies since 2003. Partners manage enrolment by collecting client details, taking photographs for identification cards, collecting premiums and delivering cards to new members. Local partner agents also host meetings where beneficiaries share testimonials about the NHIF and answer questions from other community members, building trust in the organization (Wambugi, 2012). The NHIF is responsible for contracting and managing the health-care provider network, producing identification cards and bearing financial risk for the fund.

SUPPLEMENTARY

Even as government initiatives expand benefits, governments and donors can partner with health microinsurance providers to offer valuable products that supplement government benefits. They can, for example, cover outpatient services or provide additional financial protection against health-related costs for transport, lost wages and child care or access to health facilities outside the government’s health-care provider network.

In Jordan, the microfinance institution Microfund for Women (MFW), with support from the Facility, launched a hospital cash product called Caregiver in 2010. The goal of Caregiver was to develop an affordable health insurance product that would offset some critical costs borne by MFW clients when accessing public health care. Thus, Caregiver was designed not to cover health-care expenses, which are free in public facilities, but to provide additional financial protection for lost wages and associated expenses during a hospital stay, including child care, transportation fees or purchasing medicines that may not be available in hospital.

FIGURE 5: LEVERAGING HEALTH MICROINSURANCE TO PROMOTE UNIVERSAL HEALTH COVERAGE



Read more: Leveraging health microinsurance to promote universal health coverage, Microinsurance Paper No. 23



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Premiums for national schemes must be actuarially priced and based on accurate data, to ensure that they will reflect the risks they cover and to reduce costs. Ghana’s NHIS faces sustainability challenges, partly because premiums are not actuarially based. Insurance payments are income-related for three per cent of the population who work in the formal sector, while for informal sector members there is a flat rate premium per person. Consequently, the National Health Insurance Authority ends up subsidizing more than 73 per cent of total expenditure. This figure does not include direct subsidies to targeted groups (the core poor, children, pregnant women and the elderly).

BENEFITS

FOR CLIENTS: Lower out-of-pocket expenses, better and more accessible health care and better health outcomes

FOR GOVERNMENTS/FUNDERS: Health coverage to the entire population, better health conditions and reduced poverty.



INCREASING EFFICIENCY

Investing in agricultural insurance can help governments to better manage their fiscal exposure by transferring part of the agricultural risks to domestic or international markets. It can also help to ensure that assistance is appropriate in size and provided quickly to small-scale farmers.

Mexico has a catastrophe crop and livestock insurance programme which is specifically designed to provide a social safety net for vulnerable rural smallholder farming households that are uninsured by the commercial sector. Since its inception in 2003, the *Seguro Catastrófico Agropecuario* of the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA) has expanded quickly. By purchasing insurance coverage from public and private insurance companies, SAGARPA insured approximately 9.59 million hectares of crops in 32 states and 5.86 million head of livestock in 2012. Reliance on insurance over direct assistance secured significant cost savings and protected federal and state budgets from public assistance requests due to unpredictable catastrophic events. Furthermore, SAGARPA reports that using parametric catastrophe insurance has reduced response time by as much as six times. It now takes an average of 9 days to distribute benefits to farmers.

PACKAGE OF SERVICES

Insurance needs to be seen as part of a wider approach to addressing agricultural risk. Governments and donors can link agricultural insurance to risk prevention measures, such as reinforcing dams to protect against floods, and building water retention basins to secure water for irrigation during drought. Insurance can be more powerful if bundled with other services that reduce farmer's vulnerability to weather risks.

Oxfam America, Swiss Re and partners developed the Horn of Africa Risk Transfer for Adaptation (HARITA) programme in the state of Tigray in 2008. HARITA allows cash-poor farmers the option of working for their insurance cover by engaging in community-identified projects to reduce risk and build climate resilience, such as improving irrigation or managing soil. In the event of a seasonal drought, insurance payouts are triggered automatically, enabling farmers to afford the inputs necessary to plant the following season. However, farmers benefit even when there is no payout, as the risk management infrastructures built through their work will help reduce risk for future seasons.



Copyright: Go, 2008

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Is there value in microinsurance?, Client Value Brief 1, Microinsurance Innovation Facility and MILK



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Agricultural weather index insurance only works well if the parametric-based index accurately reflects the losses suffered by individual farmers. Reducing basis risk requires accurate weather data and investments in infrastructure (see Blueprint 6 for details). Combining yield-based data with index data captured through weather stations or satellites might also be effective. For example, the Government of India is piloting the modified National Agricultural Insurance Scheme (mNAIS), where the main claim payments to farmers are based on area yield indices, but satellite data is used to target and audit crop cutting experiments.

BENEFITS

FOR CLIENTS: Access to affordable products

FOR GOVERNMENTS/FUNDERS: Stabilized agricultural production, effective social protection systems



LEVERAGE INSURANCE AGAINST LOSSES FROM NATURAL DISASTERS

CLIMATE CHANGE ADAPTATION

Natural disasters are a growing threat to the security and well-being of many low-income households. Insurance against floods, droughts and storms can, if combined with preventive measures, support climate change adaptation and improve the effectiveness of social protection systems.

The National Flood Insurance Program (NFIP) was created by the Congress of the United States in 1968 to enable property owners in participating communities to purchase insurance protection from the government against losses from flooding. This insurance is designed to provide an alternative to disaster assistance so as to meet the escalating costs of repairing flood damage to buildings and their contents. A notable feature of the NFIP is that communities must take prescribed loss reduction measures if their residents are to be eligible for subsidized cover. The insurance is only available in those communities that adopt and enforce a floodplain management ordinance that meets or exceeds NFIP standards. As of April 2010, the programme had insured about 5.5 million homes, the majority of which were in Florida and Texas.

MESO AND MACRO INTERVENTIONS

Schemes to reduce the vulnerability of the rural and urban poor to natural disasters and climate change may need to go beyond the micro level to work at “meso” and “macro” levels. Larger interventions are needed in order to protect the entire population susceptible to risks. The micro level typically targets individuals or a group of up to several hundred people, while meso refers to larger communities or cooperatives (covering thousands to millions), and macro covers entire regions or countries (with hundreds of thousands to several million people insured).

Repeated natural disasters prompted *Fonkoze*, a Haitian microfinance institution (MFI), to look for an innovative risk management solution to protect itself and its clients. In partnership with key public and private organizations, including Mercy Corps, it formed the Microinsurance Catastrophic Risk Organization (MiCRO). MiCRO provided index-based cover for the MFI based on rainfall, wind speed and seismic activity. When these parameters exceeded a predetermined threshold, a payout was triggered for *Fonkoze*. MiCRO also provided basis risk protection: if a payout based on the index trigger was not sufficient to cover losses of *Fonkoze*, MiCRO covered 85 per cent of the difference, up to an annual ceiling of US\$1 million. The actual loss was based on an assessment of clients' losses, conducted by the MFI. Excessive claims have resulted from the multiple perils covered and *Fonkoze*'s unlimited liability to cover basis risk. This, coupled with potentially inflated loss assessment, has challenged the viability of the scheme, which is now being redesigned for a future relaunch.



Copyright: Mercy Corps, 2011

Read more:



Climate change: A microinsurance perspective, Microinsurance Network Discussion Paper 2
Microinsurance applications: Filling supply and demand gaps, Microinsurance Paper No. 35
Getting better at improving client value: The case of Fonkoze's Kore W microinsurance product, MILK Brief No. 23



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Schemes that protect against natural disasters include a reinsurance mechanism, due to the covariant nature of risks and the potential of large losses. In Mongolia, the government worked with The World Bank to develop an Index-Based Livestock Insurance (IBLI) scheme. Initially, herders bore the cost of small losses (less than 6 per cent) that did not affect the viability of their business, while losses of between 6 and 30 per cent were covered through a reserve fund, the Livestock Insurance Indemnity Pool (LIIP), for which the Government of Mongolia acted as reinsurer. This proved too large a risk for the government and donors to take on in the long run, especially as the scheme grew. It was thus imperative for international reinsurers to become involved in providing reinsurance for the scheme. The government now only provides the final layer of reinsurance for this scheme.

BENEFITS

FOR CLIENTS: Reduced vulnerability, more resilience to deal with shocks

FOR GOVERNMENTS/FUNDERS: Ability to cope with effects of natural disasters



WEATHER DATA

The absence of comprehensive rainfall and crop data inhibits the development of weather index-based insurance, since data is needed for index design and determining payouts. By investing in infrastructure, such as weather stations, governments and donors can increase the availability of data. Satellite imaging and drones can also improve the accuracy and relevance of data.

Kilimo Salama insures farmers against drought or excessive rainfall. The project, which is a partnership between the Syngenta Foundation, insurance companies, telecom operators and donors, started in Kenya and expanded to Rwanda, reaching 185,000 farmers by the end of 2013. Implementing *Kilimo Salama* required an investment in fully automated weather stations. In Kenya, in cooperation with the Kenya Meteorological Department, weather stations have been renovated by the Syngenta Foundation to ensure timely collection and reporting of weather data every 15 minutes. These fully automated stations guarantee that both the insurer and reinsurers are comfortable with the measurements being taken. This full set of weather data (rainfall, temperature, wind speed, sunlight) also allows for prediction of incidence of diseases, such as blight and other potential risks.

HEALTH DATA

The lack of common illness codes, protocols and technologies between insurers and health-care providers complicates the exchange of information about patients, diagnoses, costs and payments. This poor standardization can lead to delays in claims processing, increased transaction costs, inefficient use of resources, fraud and general inefficiencies. Health data dictionaries (HDDs) can provide national standards for the broader health sector and increase efficiency in data collection and sharing.

With funding from the Rockefeller Foundation, the Joint Learning Network for Universal Health Coverage and the PharmAccess Foundation have developed an open source HDD software named openHDD. The software aims to develop and share common data definitions, so as to promote interoperability between the various information systems used in health care and health-care financing. openHDD is currently being used by the Philippines Health Insurance Corporation (PhilHealth) to develop and implement an HDD in the country, as a way of avoiding confusion and misinterpretation in health-care procedures and garnering real benefits for the Filipino people.

CAPACITY BUILDING

The ability of stakeholders to contribute to the development of microinsurance is often limited, not only by lack of infrastructure, but also by lack of know-how. As a new field with specific technical requirements, a key way of supporting the expansion of microinsurance is to build the capacity of more microinsurance professionals. Three target groups require particular attention: risk carriers, delivery channels and “multipliers,” such as consultants and trainers.

In 2010, the ILO, the United Nations Capital Development Fund and the FinMark Trust began supporting microinsurance market development in Zambia by commissioning a diagnostic review of the regulations, supply of insurance to low-income households and demand. The findings were presented to the Insurance Supervisor and key stakeholders, including industry representatives, potential distribution channels, client advocates and donors. A task force created a microinsurance roadmap based on the challenges and opportunities identified in the report. The task force has overseen interventions to create an enabling environment, build the capacity of insurers, facilitate relationships with distribution channels and educate clients. By 2013, five new microinsurance products were available, covering 150,000 people, and take-up was growing quickly.



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Read more:



Promoting interoperability of health insurance information systems through a health data dictionary, Information Technology Technical Initiative

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Governments provide access to public databases on demography, mortality, health, agriculture, weather events etc. The use of appropriate data can contribute to good pricing techniques and product development, making insurance fair and adequate for the client and profitable for businesses. Until 2009, the Agriculture Insurance Company of India was the only company in the country that was allowed to use the results of the 'crop cutting experiments' carried out by government agriculturists to design their yield index product for the National Agriculture Insurance Scheme. In 2010, the Indian Government opened up the area yield insurance market to private insurers. Now, the private insurance industry can access government data for underwriting the Modified National Agriculture Insurance Scheme yield product and can sell the products with subsidized premiums. In this case, the government is taking on the role of a data provider and funder of subsidies.

BENEFITS

FOR CLIENTS: Access to fair and appropriate products

FOR GOVERNMENTS/FUNDERS: Better data, accurate pricing



BEHAVIOUR CHANGE

Insurance consumer education (ICE) has the power to develop the knowledge and skills that individuals need to make informed decisions about how to protect themselves and their families and to adopt proactive risk management behaviour. However, evidence shows that behaviour changes take time and that education is not always directly translated into action. Insurance education initiatives should, therefore, take an educational approach that points clients to the different products that fit their needs.

In Brazil, insurance association *Confederação Nacional das Empresas de Seguros Gerais* (CNseg) created the *Estou Seguro* project (in English: I am safe), which used videos, radio soap opera, street plays, booklets and a samba contest to disseminate insurance and risk management information to low-income groups in Santa Marta, a poor community in Rio de Janeiro. However, due to regulatory issues, microinsurance products were not available until more than two months after the *Estou Seguro* ICE initiatives were launched. The misalignment in timing between the interventions led by CNseg and insurers offering suitable products resulted in loss of the first impact generated by the education initiatives, since clients wishing to buy insurance products could not find them on the market.

LAYERED APPROACH

Governments, insurance associations and insurers should combine efforts for financial education, even engaging in a national strategy. The focus of each stakeholder should be on different aspects of financial literacy. While governments can offer broader financial education content, insurance associations are well positioned to offer insurance specific content, and insurers can focus on providing product specificities. A layered approach, aligned with the priorities and incentives of each stakeholder, can maximize results.

In 2013, CNseg redesigned its insurance education strategy into two groups of activities, to link up with the national financial education strategy. The first group involves market awareness activities, such as mass media campaigns and face-to-face events and contests, which are used to transmit positive messages about insurance, ultimately building trust and demand which is critical for the insurance industry. The second group facilitates linkages to other stakeholders as a way of increasing financial literacy. Specifically, CNseg aims to collaborate with the national strategy so as to better include insurance as part of a broad financial education curriculum for schoolchildren, beneficiaries of conditional cash transfer programmes and retirees. With this new strategy, CNseg focuses on its area of expertise – insurance – while the government initiative offers broader financial literacy to clients.

Since 2012, Mexican insurance association *Asociación Mexicana de Instituciones de Seguros* (AMIS), has been working together with *Oportunidades* – which combines conditional cash transfers with interventions for health, nutrition and education – to promote insurance education workshops for young beneficiaries of *Oportunidades*. By focusing on youth at the bottom of the pyramid, these partnerships aim to stimulate the culture of prevention, promoting microinsurance in an attempt to minimize the impact of adverse events in vulnerable communities.

REQUIREMENTS

Governments can establish financial education requirements to be followed by financial institutions. The goal is to increase the offer of literacy initiatives that empower clients with the knowledge and skills needed to make informed decisions about their finances and ultimately improve access to financial services and products.

The Financial Sector Charter (FSC) was created in South Africa as the result of a voluntary negotiation process between representatives from government, business, labour and communities between 2002 and 2004. Among the Charter's main objectives were: promoting transformation and Black Economic Empowerment within all spheres of the South African financial sector, providing access to financial products by the low-income population and promoting awareness of these products. In addition to many access requirements, the FSC states that each financial institution should annually invest a minimum of 0.2% of post-tax operating profits in client education. By establishing investment quotas, the Charter was one of the main drivers for the development of financial education programmes by financial institutions, including the insurance sector.

FIGURE 6: ILLUSTRATIVE SWOT ANALYSIS OF AN ICE INITIATIVE LED BY AN INSURANCE ASSOCIATION

STRENGTHS		WEAKNESSES	
Extensive knowledge of insurance-related topics and of the insurance market		Difficulties in establishing linkages between ICE and product access, product education and company branding for member companies	
Well positioned to be a leader in insurance-specific (and industry-led) financial education		Financial costs entailed in comprehensive initiatives	
		Lack of experience in implementing financial education programmes	
Strong relationship with critical institutions at country level		Lack of experience in monitoring and evaluating financial education initiatives	
OPPORTUNITIES		THREATS	
Developing the insurance market's potential, possibly influencing take-up and persistency		Inability to demonstrate impact may lead to unwillingness amongst donors or members to continue with financial education contributors in the absence of mandatory regulation	
Creating synergies with other stakeholders interested in developing or already investing in financial education programmes		Restrictive country regulations may influence the design of initiatives	
Boosting insurance companies' public image		Increased awareness may not lead to behavioural changes; individuals may be reluctant to buy insurance even after educational efforts	
Contributing to national consumer protection efforts by raising consumer awareness		Quality insurance products may not be available in the market	

Read more: Breaking the ICE: The role of insurance associations in client education, Microinsurance Paper No. 31



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Possible partnerships and the availability of suitable microinsurance products on the market are considered. Each context brings with it a different landscape of potential partnerships for the delivery of consumer education. Partnerships with institutions that already offer consumer education initiatives, or that have a good understanding of the needs of the low-income market and are able to facilitate access to the target audience, can be beneficial to all the partners involved.

Since consumer education generates the expectation for products, it is also important to make the link between education efforts and good value products available on the market. Otherwise, clients may end up frustrated and the effects of interventions will be reduced.

BENEFITS

FOR CLIENTS: Knowledge and skills needed to make informed decisions about their finances

FOR GOVERNMENTS/FUNDERS: Financial inclusion, economic growth and poverty reduction



PROPORTIONAL

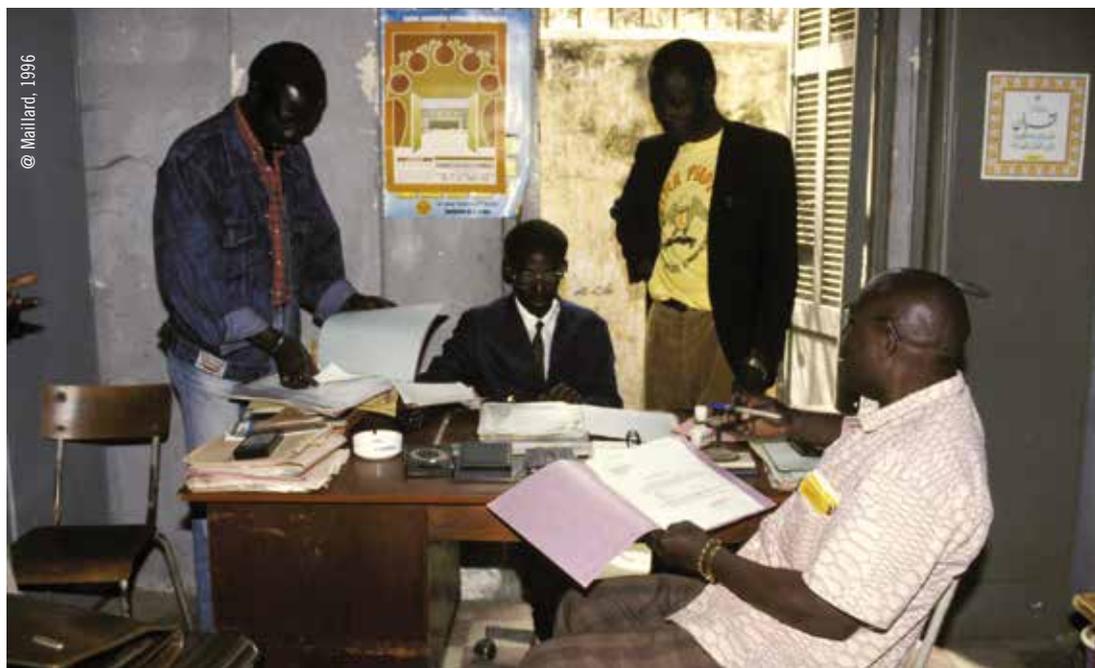
Ensuring the financial soundness of providers, as well as adequate conduct and fair processes, can foster the development of an inclusive market that clients trust and value. However, regulations have trade-offs and more regulation is not always better. Each context has its own specificities and requires different measures. The regulatory framework should be proportional to risks.

The Insurance Regulatory and Development Authority (IRDA) of India was founded in 1999 with a mandate to regulate traditional insurance and help develop insurance for rural and the low-income sectors. IRDA implemented a regulation that required insurers to sell a percentage of its business to the social and rural sectors. However, a recently conducted study (Insurance Institute of India, forthcoming) shows that the obligations have had little or no impact on helping insurers to find viable business models. The regulations have resulted in opportunistic sales, with no long-term investments or commitment. A common reason given by insurers is that microinsurance is over-regulated and market forces have not been given the freedom to experiment and find viable businesses.

PRODUCT REGULATIONS

Defining microinsurance based on the needs of the target market can help to ensure that products will match clients' needs. Simple product definitions and features can facilitate clients' understanding and efficient procedures. Claims regulations, such as limited turnaround time and reduced claims documentation, can improve clients' experience. Simplicity, clarity and transparency are the essential elements to keep in mind when designing product regulations.

In 2007 in Peru, microinsurance was defined as massive, cheap and low-coverage insurance. Regulation was applied to any insurance that did not exceed a US\$3,300 coverage limit or a \$3.3 monthly premium. It required policy features, such as minimum requirements for group policies, an application certificate to begin insurance coverage, simple coverage, minimal, if any, exclusions, no previous evaluations of policy-holders or insured values necessary, no deductibles and co-payments, and payment of claims in 10 days. In 2009, the Superintendent of Peru approved a new regulation redefining microinsurance and setting no limits to coverage or premiums. The aim was to encourage innovation, since limits on prices and benefits were considered to be obstacles to developing innovative products. Microinsurance was then defined as an insurance that provides protection for the low-income population against losses due to human or economic risks. To provide microinsurance, organizations must offer products that adhere to the following specifications: simplified policies for individuals and application certificates for groups, no exclusions unless they are necessary and in accordance with the coverage, no mandatory evaluations prior to purchasing a policy unless the specific type of insurance requires it.



@ Maillard, 1996

PRUDENTIAL REGULATIONS

Prudential regulations, such as licensing requirements, capital adequacy ratio, minimum initial capital and liquidity, guarantee the financial soundness of providers and protect clients against insolvency. However, regulations designed with large commercial providers in mind may be too onerous for small informal providers and may result in their unwillingness or inability to become a formal provider. Appropriate prudential regulations, that reflect the actual risks faced by different types of providers and create lighter requirements for special sectors, can be more effective to protect clients and facilitate the transition of small and informal microinsurance schemes to regulated entities.

Colombia has no dedicated regulatory framework or definition for microinsurance, despite the fact that many insurance companies in the country provide products for low-income groups. The law applicable to microinsurance is the Regulatory Framework for Insurance, which governs the insurance contract and insurance activity. Cooperatives can register as insurers, but they face the same capital requirements as commercial insurers. No adjustments are made for institutional type or size, which creates challenges for smaller or community-based entities that wish to offer microinsurance products.

The Philippines has a dedicated regulatory framework for microinsurance, developed in 2006 with input from various industry stakeholders. Microinsurance is defined as “a financial product or service that meets the risk protection needs of the poor where 1) the amount of premiums, contributions, fees or charges, computed on a daily basis, does not exceed five per cent of the current daily minimum wage rate for non-agricultural workers in Metro Manila; and 2) the maximum sum of guaranteed benefits is not more than 500 times the daily minimum wage rate for non-agricultural workers in Metro Manila. According to the Microinsurance Regulatory Framework, providers include any insurer – commercial insurance company, Mutual Benefit Association (MBA) or cooperative insurer – that offers microinsurance products. Microinsurance providers are subject to more lenient regulations. MBAs, for example, are subjected to lower guaranty fund requirements than commercial insurers. Commercial and cooperative insurers wholly engaged in microinsurance have lower capitalization requirements.

Read more:



Issues in regulation and supervision of microinsurance, IAIS

Application paper on regulation and supervision supporting inclusive insurance markets, IAIS

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Regulations are not onerous and do not hinder or kill microinsurance initiatives. Many benefits can emerge from an appropriate regulatory framework. However, strict regulations can backfire and undermine the development of the market. Balance is vital when adopting a regulatory approach.

BENEFITS

FOR CLIENTS: Quality products and safety

FOR GOVERNMENTS/FUNDERS: Conducive regulatory environment for the development of quality microinsurance



MARKET CONDUCT

Market conduct regulations aim to govern interaction among insurers, intermediaries and clients. Regulations include minimum standards to protect clients from abusive and unfair practices and from not having access to proper information. Market conduct regulations may, for instance, standardize terms that are used in insurance policies and marketing campaigns to facilitate understanding.

In Colombia, the Financial Client Protection regime determines that insurers and their intermediaries must provide clients with full information about the policy, including coverage, claims processes and exclusions. Though contracts are not invalidated for non-disclosure of information, insurers are sanctioned for this omission. Insurers in Colombia are sceptical of whether the full disclosure requirements actually increase clients' understanding. They also claim that the cost of disclosing the required information is high.

DISPUTE RESOLUTION

Clients must have proper mechanisms to solve controversies and disputes. Regulators can require the insurance industry to create an accessible complaint mechanism. To handle more complicated complaints that cannot be settled by insurers, regulators may require the industry to fund a third party, such as an ombudsman, to act as a mediator. In some cases, supervisors themselves act as mediators and receive the complaints directly. Grievance channels and independent resolution systems for low-income policy-holders are important to guarantee responsiveness to clients and fairness of the system. Supervisors should have access to the industry's complaint tracking system, so as to monitor the number of complaints that are made and how they are treated.

In the Philippines, the Insurance Commission has jurisdiction to receive clients' complaints against providers. However, not many complaints come from microinsurance clients, and when they do, they are mostly related to poor understanding of the policy conditions or coverage. As a way of improving dispute mechanisms, an alternative dispute resolution (ADR) framework has been drafted, to be implemented by the Insurance Commission. The ADR defines a dispute resolution process that is based on the delivery channel used. It begins with internal complaints, which move further up the complaints system if necessary. The ADR will need to be accompanied by efforts to improve client awareness on when and how they should make use of this system.

In Colombia, each insurer or group of insurers has an ombudsman dedicated to handling complaints. Ombudsmen are not allowed to manage complaints about the rejection of claims, but have authority to settle other issues. The Financial Superintendent, which oversees all financial institutions, monitors complaints for the entire financial sector, so as to guarantee they are being treated in the proper way. Statistics show that the number of complaints for microinsurance or the mass market is relatively low; most complaints are made against banks and voluntary vehicle insurance policies.



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“Pure” intentions and practice: Challenges and good practices in client protection in microinsurance, Microinsurance Network
Discussion paper in client protection in microinsurance, Microinsurance Network and GIZ

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Similar to insurance regulations, client protection regulation needs to be proportional, and balance the needs of the client with the need to promote access. Overly burdensome regulations may keep insurers out of the low-income market. BASIX Group microfinance institution *Bhartiya Samruddhi Finance Ltd (BSFL)* provided a credit plus policy with a hospitalization benefit. In 2010, the Andhra Pradesh Micro Finance Institutions Regulation Act introduced restrictions on the collection of loan repayments at the borrower’s home or workplace (only at a designated public place), on providing fresh loans without prior approval from the government and on levying any charges other than the declared interest (such as insurance). With effect from December 2010, BSFL had to discontinue insurance coverage to all its overdue borrowers and spouses (about 1 million people) in Andhra Pradesh. Though this may not have been the intended effect of the law, its impacts were negative. Since December 2011, following intervention by the Government of India and the Reserve Bank of India, MFIs have again been allowed to offer group life and health insurance to borrowers and spouses, under the guidelines of the IRDA.

BENEFITS

FOR CLIENTS: Accessible and effective communication, complaints and redress options in the case of problems

FOR GOVERNMENTS/FUNDERS: Trust in the microinsurance market, fair practices



BUSINESS MODELS

The low-income market presents specific characteristics. For example, limited experience with insurance and low education levels are features that make this market more difficult to reach for insurers. Furthermore, low premiums and tight margins force insurers to test lower cost distribution options (compared with direct sales). In order to reach scale and viability, it is crucial to allow for innovative business models, including new distributions channels, brokers and agents. Regulators need to engage and establish rules so as to enable innovations and also protect clients in case of failure.

In 2010, Zimbabwe's largest wireless network operator Econet set up a life insurance product called EcoLife. The scheme allowed Econet customers to obtain a life cover underwritten by First Mutual Life by spending a minimum of US\$3 on their telephone service. In less than one year, the product had reached a total of 1.6 million policy-holders. Despite the success, disputes between Econet and its technical partner TrustCo led Econet to withdraw the offer of EcoLife. About 62 per cent of the clients were not informed about discontinuation of the cover. This generated widespread mistrust and led clients to accuse Econet of dishonesty: 63 per cent of them ruled out the use of similar products in the future, significantly affecting the potential to develop the microinsurance market (Leach and Ncube, 2014).

TECHNOLOGY

Innovative technologies can help to reach the low-income sector, improve service and reduce providers' costs. Therefore, public stakeholders should facilitate and monitor the adoption of new technologies that can improve the offer of microinsurance.

The Insurance Regulatory Authority of Kenya permits M-PESA branchless banking to be operated on mobile phones, offered by Safaricom. The system converts more than 20,000 stores and other existing retailers into places where customers can deposit cash and make payments. That is 20 times the number of bank branches in the country, reaching 70 per cent of all households in 2009. In Brazil branchless banking does not rely on mobile phones, but on point-of-sale (POS) devices deployed by agents. As a consequence, scaling up is much slower in Brazil than in Kenya (Ramm, 2011).

MONITOR CLIENT VALUE

Client value is multidimensional, going beyond benefits and premium costs. Value should improve as markets mature and providers and clients gain more experience. Regulators need to invest in ongoing client value monitoring so as to ensure that the market improves over time. Monitoring key performance indicators (KPIs) and encouraging insurers and distribution channels to become more value-oriented is a good approach.

The financial and social performance indicators developed by the Microinsurance Network can be used by regulators to monitor the overall performance of microinsurance products. For example, in the Conférence Interafricaine des Marchés d'Assurances (CIMA) zone, joint microinsurance regulations were adopted across 14 countries. In addition, the Facility's PACE (Product, Access, Cost, Experience) tool can help stakeholders (regulators and practitioners) to assess the client value of a product by comparing it with other insurance offerings (formal and informal), as well as other financial products that can help clients to manage risk (for example, credit or savings).



Copyright: Facility, 2013

Read more:



Mobile phones and microinsurance, Microinsurance Paper No. 26
How to conduct a PACE client value assessment: A technical guide for microinsurance practitioners
Client Math toolkit, MILK, MicroInsurance Centre

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Governments have the capacity to supervise new business models and technology innovations. Each specific technology or model offers different risks for clients. Regulatory responses must deal with these risks, while trying to minimize costs for insurance providers by keeping both the client and business perspective in mind.

BENEFITS

FOR CLIENTS: Easier access to insurance products and better service

FOR GOVERNMENTS/FUNDERS: More low-income households accessing insurance products



3. CONCLUSION

Policy-makers, regulators and funders can create an enabling environment for microinsurance, so as to achieve public policy objectives and promote the development of the insurance market. The ten blueprints offer inputs on how client value can be improved in order to ensure that products benefit low-income households and are viable in the long term. The brief presents key lessons and a framework that identifies the three main dimensions of intervention: 1) insurance promotion through PPPs and subsidies; 2) investment in infrastructure and client education; and 3) regulation and supervision. It also presents ten blueprints to guide government and donor decisions and actions.

The success of interventions depends on stakeholders' capacity and market particularities and challenges. The following factors should be considered during implementation:

- Interventions must be discreet: it is important to understand the context and stage of market development prior to taking any concrete action.
- The careful design of a regulatory framework takes time and requires considerable resources.
- Regulations and interventions must encourage market demand, market efficiency and reduce entry costs. If not, they will not achieve the goal of market development.
- Involving different stakeholders in the process is a good practice that can contribute to better outcomes and lead to successful interventions.

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