



PAPER No. 40

MAKING PUBLIC-PRIVATE PARTNERSHIPS WORK IN INSURANCE

Miguel Solana

ACKNOWLEDGEMENTS

Sincere thanks are extended to all of the practitioners featured in this study for sharing information about their microinsurance schemes and for contributing their time and insights. The author thanks Camyla Fonseca, Derek Poulton, Beatriz Marulanda and Ricardo Font, for compiling the case studies for the four schemes. Special thanks go to David Schwebel for his invaluable research assistance. The author appreciates the detailed comments on drafts provided by a number of reviewers, including Carolina Trivelli, Craig Churchill, Aparna Dalal, Ricardo Ford, Beatriz Marulanda, Caroline Phily and Gaby Ramm.

Copyright © International Labour Organization 2015
First published 2015

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to ILO Publications (Rights and Permissions), International Labour Office, CH-1211 Geneva 22, Switzerland, or by email: pubdroit@ilo.org. The International Labour Office welcomes such applications.

Libraries, institutions and other users registered with reproduction rights organizations may make copies in accordance with the licences issued to them for this purpose. Visit www.ifrro.org to find the reproduction rights organization in your country.

ILO Cataloguing in Publication Data

Miguel Solana

Making public-private partnerships work in insurance
International Labour Office Geneva: ILO, 2015
35p. (Paper; no. 40)

ISBN: 978-92-2-126328-9 (web pdf)

International Labour Office

microinsurance / private public partnership / India / Colombia / Peru / Mexico

11.02.3

ILO Cataloguing in Publication Data

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications and electronic products can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. Catalogues or lists of new publications are available free of charge from the above address, or by email: pubvente@ilo.org

Visit our website: www.ilo.org/publns

ACRONYMS AND ABBREVIATIONS

BPL	Below the poverty line
CADENA	Component of Assistance against Natural Disasters
CRMG	Commodity Risk Management Group (of the World Bank)
ENESA	State Agency of Agricultural Insurance of Spain
FOGASA	Guarantee Fund for Crop Insurance
GIZ	Deutsche Gesellschaft für internationale Zusammenarbeit (German government international development agency)
MINAG	Ministry of Agriculture (Peru)
MoLE	Ministry of Labour and Employment (India)
PPP	Public–private partnership
RSBY	Rashtriya Swasthya Bima Yojana
SAC	Seguro Agrícola Catastrófico
SAGARPA	Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food
SNA	State Nodal Agency (India)
TCIP	Turkish Catastrophe Insurance Pool
UDESА	Agricultural Insurance Development Unit (Peru)

TABLE OF CONTENTS

Acknowledgements 1

Acronyms and abbreviations..... 2

Table of contents..... 3

Executive summary 4

1. INTRODUCTION..... 6

2. WHAT IS A PPP? WHY LINK INSURANCE TO GOVERNMENT PROGRAMMES? 7

3. METHODOLOGY AND CASES 8

4. PPP LIFE CYCLE – HOW TO DESIGN, IMPLEMENT AND MANAGE A PPP.....13

 Step 1: Definition and design.....13

 Step 2: Industry analysis19

 Step 3: Tendering, assessment and selection20

 Step 4: Implementation22

 Step 5: Maintenance26

 Step 6: Evaluation28

 Step 7: Termination.....30

5. Ten recommendations for successful PPPs in insurance.....31

6. References.....33

EXECUTIVE SUMMARY

An insurance public-private partnership (PPP) is a contractual agreement between the public sector, represented by a ministry or local authority through a government programme, and the private sector, represented by the insurance industry and its service providers and distribution partners, that combines business objectives with public policy goals in a cost-efficient and effective way.

Being able to design and implement PPPs in insurance requires a long-term vision and a good understanding between partners. The following ten recommendations, based on the experiences of four cases from Colombia, India, Mexico, and Peru, aim to help both governments and the insurance industry to establish successful PPPs.

Ten recommendations for successful PPPs in insurance

1. **Combine a strategic approach with flexibility.** PPPs in insurance require a careful design that can evolve over time as both the government and the private sector learn from the results and situations experienced. An approach that allows for this can give certainty to all parties. The establishment of clear rules and processes is critical for success; these rules can be adapted on a regular basis but sticking to them will strengthen the credibility of programmes.
2. **Define your target beneficiaries clearly.** Better and more significant cover can be provided to final beneficiaries when insurers have an optimal understanding of the risk profile and preferences of beneficiaries; at the same time insurers can price products correctly. Several things will be necessary to deliver valuable products: investment in obtaining historical data; supply and demand market research; epidemiological and eco-demographic profiles of target groups; agricultural risk assessments, databases with relevant information for product design, operations, communications, and so on. Concise definitions of final beneficiaries will also help to deliver the appropriate products and services to the right target.
3. **A solid legal and regulatory framework is needed.** This gives certainty to both the public and the private sectors around the commitments and investment needed to implement a programme over the long term. Collaboration between the public and private sector should be based on clear rules and a long-term vision. A long-term framework that gives room for modifications and adaptations will be important to support the start-up, development and improvement of PPPs.
4. **Use insurers as an ally to achieve public policy objectives.** Governments can avoid making insurance compete with other government initiatives. Instead insurance can be used as a complementary tool to align incentives and create behavioural changes, and to reduce and manage risks. On the other hand, the government can create incentives for the insurance industry to use its expertise and entrepreneurial approach to solve public policy problems.
5. **Allocate roles clearly between the public and private sectors.** Identifying all the critical activities involved in the partnership and then assigning different partners to them will help create accountability. In terms of the investment needed for particular activities and infrastructure, this also needs to be agreed, along with its source of funding, in order to create transparency around resource use and the cost-benefit balance of the programme. A stable coordination team should be created to guarantee continuity of the activities in the long term.
6. **Take account of the capacity-building needs of the different levels of the public sector (central, state and municipal).** Extra capacity might be needed to design policy, oversee insurance mechanisms, and monitor and audit insurance programmes. Capacity needs differ at different government levels depending on their involvement in the implementation of programmes; yet the

involvement of all levels in a capacity-building programme can help to support the continuity of the partnership despite administration changes.

7. **The private sector should build its capacity around best practice, product innovation, pricing, reinsurance, distribution and technology.** A private sector that develops its capacity to understand low-income populations better and to implement large-scale programmes will be able to create the results needed in the public policy domain and therefore demonstrate the success needed for further engagement.
8. **Endeavour to improve the value of products to be offered through PPPs.** PPPs offer an opportunity to some segments of the population to experience insurance mechanisms for the first time in their lives. It is therefore important that their experience is informed and positive. Activities to bring higher-value products to these segments will enable insurance to achieve its promise to both governments and final beneficiaries.
9. **Include monitoring and evaluation systems with clear indicators.** Establishing indicators that are accepted on both sides as part of the results of a programme brings accountability and permits partners to follow up programmes over time. The set-up of monitoring and evaluation mechanisms at the outset is an important way to establish a results-oriented environment. Evaluations over time will shed light on how improve the design and operation.
10. **Take a knowledge-management approach by documenting lessons, and measuring and sharing results.** This will help programmes evolve over time. Programmes that have been able to analyse their experience and learn from problems and challenges will, over time, improve the value and experience for final beneficiaries while achieving scale. Being able to learn from experiences will provide insights and ideas that can help programmes to prevent errors and foster faster growth and improvement.

1. INTRODUCTION

Millions of people around the world constantly face a variety of risks, including death of the breadwinner, health emergencies, violence and crime, loss of employment and income, crop failure, livestock mortality, and natural disasters such as earthquakes, floods and droughts. These risks have an impact on public policy priorities, as governments need to find ways of mitigating their impact on individuals and communities. Managing these risks and their financial implications, both for populations and governments, is emerging as a crucial component of improved income security and sustainable social and economic development.

The World Bank's 2014 *World Development Report* focused on risk and opportunity, emphasizing the importance of risk management, discussing how it should be conducted, and outlining the obstacles that prevent both individuals and societies from adopting effective risk-management strategies (World Bank, 2014). The report recognizes that effective risk management can be a powerful instrument for development.

Low-income groups – many of whose members work in the informal economy – are more vulnerable to risks than others, yet they are the least able to cope when crises occur (Fonseca and Dalal, 2014). Shocks and adverse events push low-income households further into poverty, preventing them from finding a way out of it. Insurance is a powerful tool to break the cycle of vulnerability and poverty. Rigorous studies have demonstrated that insurance can improve financial protection, reduce vulnerability, improve health indicators and increase productive investment (Dalal et al., 2014). It can be an effective mechanism to complement or extend social protection schemes. By using insurance mechanisms and the insurance industry in this way, governments can meet various public policy objectives, such as food security and universal health coverage (Box 1). Partnerships between the government and the insurance industry are a way of both achieving scale and improving the quality of social protection programmes. A key advantage of these public–private partnerships (PPPs) is that they can combine the different skills and resources of the partners in innovative ways. For instance, governments can focus on policy, planning and regulation, while the insurance industry can provide technical and management capabilities.

BOX 1. INTEGRATING SOCIAL PROTECTION AND INSURANCE

Although Article 22 of the United Nations Declaration of Human Rights (1948) states that, “every member of the society has the right to social security”, approximately 75 per cent of the world's population is inadequately protected, and approximately 40 per cent lack even basic protection. Confronted with these figures, 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).

Insurance can be a means of extending or supplementing social protection benefits, particularly for the working poor. Insurance does not need to compete with or replace public social protection; rather it can support the distribution of social protection benefits to under-served populations, and also supplement the basic benefits of social insurance schemes. It is a tool for achieving universal health coverage, a system in which everyone in a society can access the health-care services they need without incurring 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 (Fonseca and Dalal, 2014, p. 1).

Yet, these partnerships are not easy to develop and sustain. This study uses findings from four case studies to explore how PPPs for insurance can be designed and implemented. Documenting the

successes of different schemes and the challenges they have faced can help both governments and the insurance industry to think about possible ways of collaborating that can make public policy more efficient and improve the experience of the final beneficiaries of social programmes. Identifying good practice and conditions for success is necessary to improve future programmes.

The paper is structured as follows: Section 2 defines PPPs in insurance and gives the main reasons for linking insurance to government programmes; Section 3 describes the four cases; Section 4 sets out the life cycle of PPPs, and goes through seven steps for designing, implementing and managing these partnerships; and finally, Section 5 makes ten recommendations for successful PPPs in insurance.

2. WHAT IS A PPP? WHY LINK INSURANCE TO GOVERNMENT PROGRAMMES?

An insurance PPP is a contractual agreement between the public sector, represented by a ministry or local authority through a government programme, and the private sector, represented by the insurance industry and its service providers and distribution partners, that combines business objectives with public policy goals in a cost-efficient and effective way (Ramm, 2011). This study limits PPPs to partnerships where some sort of local, regional or national government is involved. It does not consider a partnership between international donors and the private sector to be a PPP if no government body is involved. Existing insurance PPPs have focused on achieving public policy objectives within the spheres of social protection, climate change adaptation, rural development, disaster risk financing, productivity support and financial inclusion. PPPs have been motivated by a need to improve financial control over public budgets or to deliver more efficient solutions and services to final beneficiaries.

It is imperative that the insurance industry and the public sector tackle the issues together. If the insurance industry acted on its own, it might focus on areas of insurance that offered short-term profitability, ignoring certain populations or risks that might be harder to address. On the other hand, if the public sector tried to work alone, protection might not be efficient and expenditure could be higher. Public programmes can sometimes be more reactive to shocks, providing compensation ex-post but failing to create incentives for ex-ante action and or to bring about behavioural change. Collaboration between the public and private sectors can reduce and manage risks ex-ante, as cover can be conditional on adaptation.

Market failures, government failures and behavioural barriers are the main reasons why PPPs may be needed. A market failure in the insurance market is observed when the right products for risk management are not available in the market, particularly for low-income people, for a variety of reasons, including insufficient infrastructure or lack of capacity within the industry or of clients. In many cases insurers do not have access to the information that is needed to design insurance products, while the public sector either has it available or is in a position to generate it; for example, information on weather events, economic situation, vulnerability and risk exposure. Enabling the insurance industry to use the information that the public sector has access to can potentiate this kind of collaboration.

A government failure occurs when governments implement policies that compete against insurance mechanisms, thus diluting the impact of insurance. An example of this can be ex-post support in the face of catastrophes when there is an insurance mechanism operating. A better understanding of insurance mechanisms and benefits might be needed at the government level in order to create incentives for final beneficiaries and encourage sound policy-making.

Behavioural barriers can be observed when, despite the benefits of insurance, individuals and certain levels of government continue to make poor risk-management and financing decisions, perhaps through lack of financial literacy or awareness.

A PPP between different institutions or levels of government and the insurance and reinsurance industry can overcome these barriers and behaviours. If well-designed, a PPP can strengthen the capacities of different levels of government; accelerate project implementation; achieve better risk allocation; enhance public management; reduce costs; and increase the quality of services. Both governments and private players can benefit from a well-designed PPP (see Box 2).

BOX 2. Advantages of PPPs to governments and the insurance industry

Advantages for governments

- Microinsurance can bring a client-centred approach to product development. Beneficiaries of public programmes can experience reduced payout times and improved benefits. The private sector may be able to deliver benefits more effectively and efficiently.
- Data on different risks can be developed over the long term to be able to price and transfer risk in a more efficient way, while contributing to greater public transparency.
- PPPs can create better budget management, as insurance premiums can help to bring certainty around contingent events that have a severe impact on public finances.
- Insurance mechanisms can help to align incentives within the government to set up the policies that can reduce the exposure to risk of particular groups.

Advantages for the insurance industry

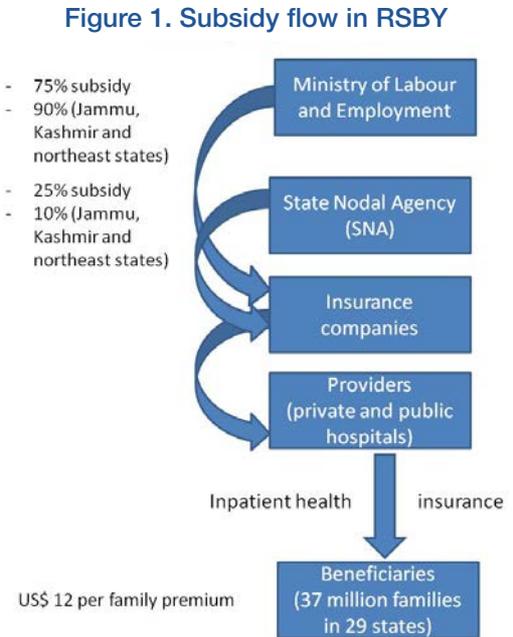
- Access to programmes with scale can help reduce operational and premium costs. Scale can help to improve value for final beneficiaries.
- Collaboration with the government provides opportunities for improved data collection, which can lead to better pricing and beneficial competition.
- Insurance PPPs can increase the capacity of the industry to deal with bigger volumes of clients and premiums, while fostering national financial risk-transfer mechanisms.
- Joint work with government can help to change the exposure to risk of the population, making insurance protection sustainable for both insurers and reinsurers.

3. METHODOLOGY AND CASES

This study presents results primarily from four cases – RSBY in India, Seguro Agrícola Catastrófico in Peru, CADENA in Mexico, and Red Unidos and Banca de las Oportunidades in Colombia – though further experiences have also been taken into account.

Each PPP is developed in a particular way and is framed by its context. The design, roles and dynamics that emerge during implementation vary from country to country. The cases presented here represent a range of different models. Each case is described briefly below and in Table 1. An in-depth version of the cases is available at: www.impactinsurance.org/publications/mp40

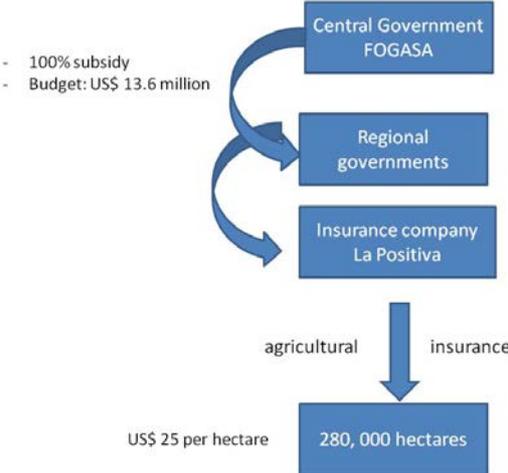
RSBY – INDIA. The Rashtriya Swasthya Bima Yojana (RSBY) is a health insurance scheme for families below the poverty line (BPL), launched by the Ministry of Labour and Employment (MoLE). Its operation is based on a PPP between the Government (central and state levels) and different insurers and hospitals (public and private). The



Government is responsible for the scheme structure, financial management, premium payment, monitoring and evaluation. Insurers are responsible for hospital empanelment, enrolment of beneficiaries, claims processing and customer service. The insurers benefit from access to new market segments, with premiums guaranteed by the Government; the Government has been able to use the capacity of the insurers and has expanded its outreach; and the beneficiaries have access to subsidized benefits, made accessible through new technologies.

SAC – PERU. The Seguro Agrícola Catastrófico (SAC) is an agricultural catastrophe insurance scheme to protect small- and medium-scale farmers against extreme weather events that affect their crops. It is managed by the Ministry of Agriculture (MINAG). The central Government finances the premiums through the Guarantee Fund for Crop Insurance (FOGASA) and the regional governments engage with selected insurance companies following a tender process. The beneficiaries are not directly enrolled. Instead, community leaders make lists of farmers who have suffered losses, on behalf of public agricultural agencies. A company adjuster determines the losses after a disaster, and the insurance company indemnifies the farmers on the basis of the report. The Government has been able to provide catastrophe coverage through two insurance companies. The insurance companies have benefited by gaining exposure to geographical regions where they did not operate before and have developed new products through this programme. This partnership has faced some challenges, like the process of transmitting information about a catastrophic event from the producer to the insurance company.

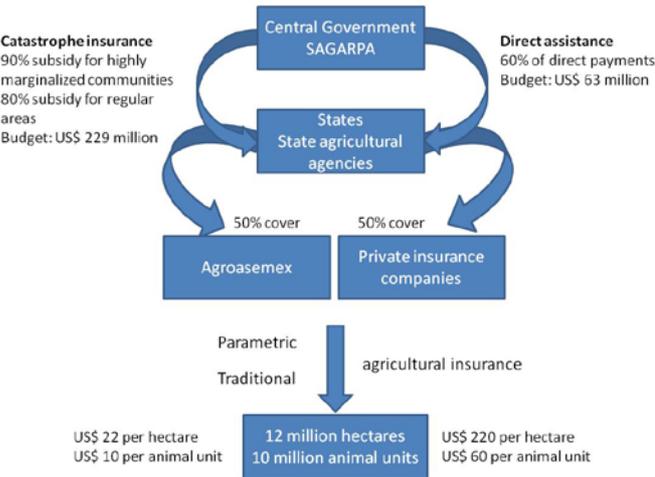
Figure 2. Subsidy flow in SAC



The insurance companies have benefited by gaining exposure to geographical regions where they did not operate before and have developed new products through this programme. This partnership has faced some challenges, like the process of transmitting information about a catastrophic event from the producer to the insurance company.

CADENA – MEXICO. The Component of Assistance against Natural Disasters (CADENA) is managed by the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA). It functions as a social safety net for vulnerable smallholder farmers. CADENA links private insurers and reinsurers with federal and state government agencies through a federally coordinated scheme. State governments can buy insurance cover with federal premium subsidies. A variety of meteorological and geological risks are covered (drought, frost, hail, snow, torrential rain, floods, tornadoes and cyclones on the one hand, and earthquakes, volcanic eruptions, tsunamis and landslides on the other). To engage with the insurance industry, CADENA has developed operational guidelines for standardized tender processes, which are reviewed each year. It also carries out training courses to help state governments understand insurance and payout processes. When catastrophic events occur, the state governments send a list of beneficiaries covered by the insurance to SAGARPA, requesting reimbursement. Payouts to farmers are carried out by the state agricultural agencies under supervision of CADENA.

Figure 3. Subsidy flow in CADENA



BANCA DE LAS OPORTUNIDADES AND RED UNIDOS – COLOMBIA. Banca de las Oportunidades, the country’s programme to promote financial inclusion, and Red Unidos, the central government programme to eradicate extreme poverty, designed a pilot project encouraging insurance companies to offer life and funeral insurance to people in extreme poverty. The project focused on the beneficiaries of both Red Unidos and the conditional cash transfer programme Familias en Acción. After three tendering processes, one insurance company was selected. Red Unidos provided information about beneficiaries, and made field staff (*cogestores*) available to be trained by the insurance company and to distribute the policies to the families. Banca de las Oportunidades provided subsidies that covered the whole premium in the first year, while the insurance company offered beneficiaries a call centre and processed the claims and payouts. In the second year premiums were no longer subsidized, which created a major challenge in terms of renewals. This programme aimed at integrating insurance into a broader financial inclusion strategy.

Figure 4. Subsidy flow in Banca de las Oportunidades and Red Unidos

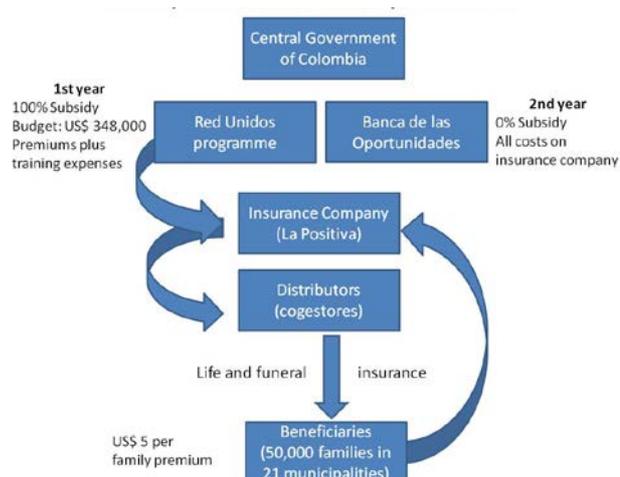


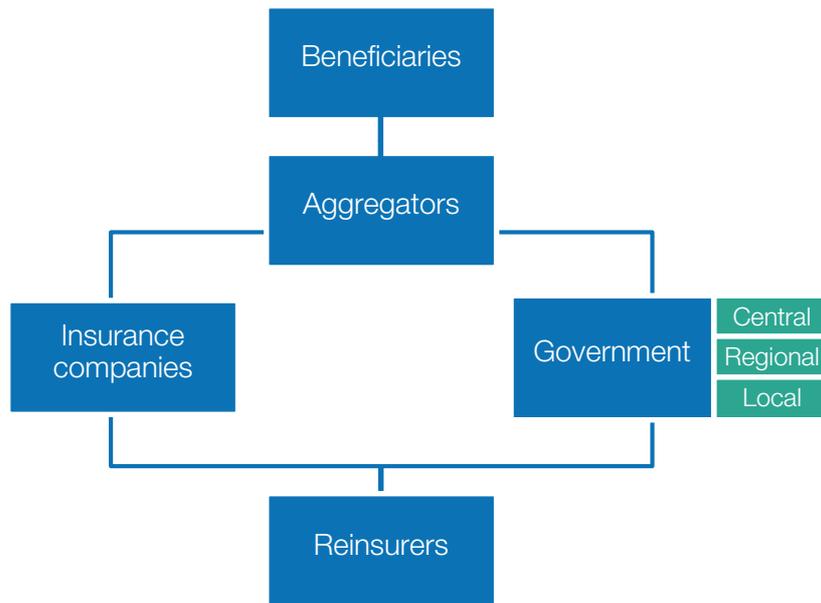
Table 1. PPPs reviewed in the study

	RSBY India	SAC Peru	CADENA Mexico	Red Unidos / Banca de las Oportunidades Colombia
Risk	Health – inpatient and outpatient	Agricultural – catastrophe Drought, excess humidity, frost, low temperatures, floods, avalanches, hail, fire, strong winds, high temperatures, and pests Undefined crops	Catastrophe Meteorological risks (drought, cold, hail, snow, torrential rain, freezing or low temperatures, severe flooding, tornadoes and cyclones) Geological events (earthquakes, volcanic eruptions, tsunamis and landslides) Crops and livestock	Life and funeral
Ministry / government entity	Ministry of Labour and Employment (MoLE)	Ministry of Agriculture (MINAG)	Secretariat of Agriculture, Livestock, Rural Development,	Banca de las Oportunidades (Bancoldex) and Red Unidos (DPS)

			Fisheries and Food (SAGARPA)	
Levels of government	Central and state	Central and state	Central and state	Central
Target audience	Population below the poverty line whose information is included in the district list prepared by the state Government	Farmers such as peasant communities, native communities, small- and medium-scale farmers	Vulnerable smallholder farmers defined as producers with up to 20 hectares of annual crops, up to 10 hectares of fruit crops, or up to 60 animal units	Beneficiaries of both Familias en Acción and Red Unidos (poorest families according to the official definition of poverty in Colombia).
Year of launch	2007	2009	2003	2008
Premium payment	Central Government – 75% State Government – 25% Final beneficiary – enrolment fee	Central Government – 100%	For the ex-ante insurance component, central Government – 80–90% State – 10–20% *Has changed over time	Central Government – 100% in the first year Beneficiary – 100% after the first year (with an improved benefit)
Enrolment	Insurance companies	Local agricultural agencies	State agricultural agencies	Field officers from Red Unidos
Outreach	Over 100 million members out of 355 million eligible members	Insured area up to: 490k ha Average number of beneficiaries per year: 56,000	As of 2013: 12 million ha and 10 million animal units (75% and 70% of the estimated target population)	39,201 out of the initial 50,755 potential beneficiaries

Figure 5 presents a typical PPP structure; however there is no fixed structure for a PPP. The structure depends on which risks and responsibilities remain within the public domain, and which ones can be transferred to the private sector. The public sector can be divided into central, regional and local levels. Meanwhile, in the private sector insurers can go beyond just covering risks and be more active in performing functions like product design, enrolment, communication and promotion, claims payments, and so on. Furthermore, aggregators (public or private) play a key role as the point of contact with beneficiaries.

Figure 5. Typical PPP structure



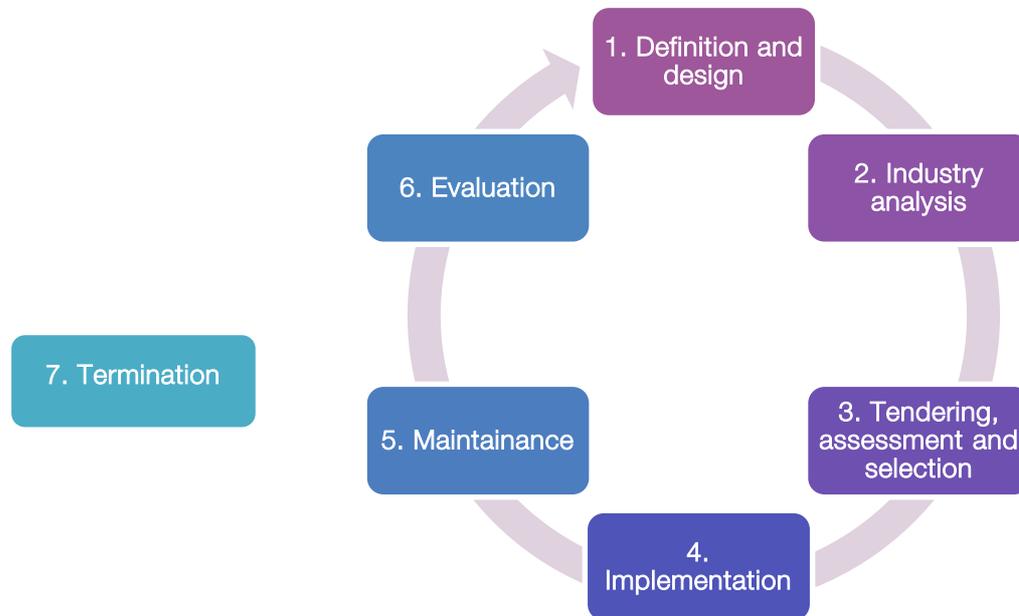
Governments should structure programmes involving PPPs in such a way that the objectives can be achieved. Therefore, ministries can design the structure of the PPP to suit their own ability to work with insurance and their operational structure, while taking into account the maturity and capacity of the local insurance industry and its aggregators.

The cases examined in this paper represent a range of models that have emerged from local contexts. In Peru, although the SAC is geared towards farmers, regional governments are actually the direct beneficiaries of the state subsidy since they negotiate the insurance cover, contract the insurance companies and implement the programme. The central Government finances the premiums and defines the operational rules, whereas the regional governments use a tender process to select their insurance partners. In Mexico, the federal Government set up a structure where SAGARPA defines the operational rules for CADENA, giving the states access to subsidies for defined risks and beneficiaries. Furthermore, SAGARPA facilitates the structure that connects the federal Government, the states and the insurance industry. The state agricultural agencies then take care of the implementation and deal with the final beneficiaries.

4. PPP LIFE CYCLE – HOW TO DESIGN, IMPLEMENT AND MANAGE A PPP

It is important to follow a number of successive steps in order to ensure that the PPP is functional and achieves its objectives. The partnership life cycle (Figure 6) is a useful way of understanding the steps involved in the development of a PPP.

Figure 6. Partnership life cycle



STEP 1: DEFINITION AND DESIGN

The first step in the cycle involves defining the objectives, institutional structure, roles, financing mechanisms, infrastructure and the legal and regulatory framework. Governments need to consider the environment of the vulnerable population and the greatest risks they face. The design needs to ensure long-term sustainability.

These basic dimensions should be understood to design an insurance PPP, taking into account the local context and the activities that may be needed to achieve a successful partnership.

A. DEFINING OBJECTIVES AND INSTITUTIONAL STRUCTURE

Setting the objectives of a programme is an essential first step in designing a structure and choosing indicators that will enable evaluation to take place. The objectives are dependent on the specific policy that the programme is meant to fulfil. The structure should be transparent in order to create accountability. Both the insurance industry and the public need to understand how a programme will operate and where responsibilities will lie.

PPPs can follow one or more of the following objectives:

- Reduce programme costs and provide budget certainty and efficiency
- Improve the experience of beneficiaries (service quality and delivery)
- Complement existing social programmes
- Give or increase access for a defined group of beneficiaries to specific services
- Improve financial and insurance inclusion
- Provide insurance companies with incentives to serve low-income markets or cover particular risks

- Achieve scale and efficiency
- Give beneficiaries incentives to reduce their own exposure to risk Promote innovation and create a demonstration effect.

RSBY in India established clear objectives from the beginning. Its main goal was to provide access to a wider variety of health-care facilities for the BPL population, while creating budget certainty for government health-care expenditure. Given that previous schemes were not able to achieve their intended objectives, largely because of design issues, there was a great emphasis on developing a well-designed operational structure. Achieving scale and efficiency became one of the priorities of the programme.

In Colombia, for Banca de las Oportunidades the objective was to complement Colombia's financial inclusion policy by promoting access to insurance for the low-income population, while contributing to Red Unidos' strategy to eradicate extreme poverty. Banca de las Oportunidades designed a scheme to stimulate insurance companies to offer life and funeral insurance and improve coverage, and quality of offerings for the target population.

In the case of CADENA in Mexico, the main objective was to provide universal coverage against catastrophic events for vulnerable smallholder farmers, while reducing and smoothing budget outlays through ex-ante insurance rather than direct ex-post assistance by 2018. CADENA seeks to transfer risk from the federal and state governments to the private insurance and reinsurance markets.

Finally, the Ministry of Agriculture in Peru aimed to create a protection mechanism for farmers in the poorest regions of the country, while letting the insurance companies service the final beneficiaries in order to have benefits paid out more efficiently.

The different examples show how objectives and structures can be diverse. They are dependent on local conditions and public policy considerations. In all cases, the objectives should be linked to the general purpose of the government programme.

B. OPERATIONAL CAPACITY OF THE GOVERNMENT AND THE INDUSTRY

Although the government is not going to carry the risk, it still needs a good understanding of insurance to maintain an effective partnership. Expertise in insurance mechanisms needs to be created at different levels of the government (national, state and local) so that it can design policies, award contracts, and operate, monitor and improve programmes. This is one of the early priorities when thinking about PPPs in microinsurance.

Another concern is the capacity of the local insurance industry, in terms of both operations and capital, to absorb big programmes. If there are doubts over this, schemes like risk pools or arrangements with reinsurers may help to improve the existing capacity (Box 3). The implementation capacity of the industry needs to be assessed in order for programmes to be designed that are realistic in the local context and that take into account the development needs of the local industry. Where the industry needs to develop particular capacities, activities can be designed to bring it up to a level where it can service the programme's objectives properly. Furthermore, ensuring that aggregators have the capacity for making programmes operational is crucial as the insurance industry may not implement certain activities on its own.

The maturity of the local insurance market can be a decisive factor in the development of partnerships. Furthermore, several other players, such as microfinance institutions, alternative distribution channels and technology providers, may be involved in the implementation of activities, and when designing a partnership, their degree of development and involvement needs to be taken into account.

BOX 3. Turkish Catastrophe Insurance Pool

The Turkish Catastrophe Insurance Pool (TCIP) is a public sector insurance entity providing compulsory catastrophe risk insurance for Turkish households. It is considered a PPP since all of its business functions – from sales and reinsurance to claims management – are subcontracted to the private insurance industry.

In the TCIP, insurance companies (around 30) play an important role as they are the intermediaries that sell compulsory earthquake insurance policies. Premium rates are fair, not subsidized, and they are sold for US\$62 on average, depending on the construction type and location of the dwelling.

The Government's role is limited to providing contingent liquidity support in excess of the TCIP's overall claims-paying capacity. The catastrophe risk financing strategy of the TCIP relies on both risk retention and reinsurance. The TCIP retains the first US\$80 million of losses through its reserves and transfers excess losses to the international reinsurance markets. The Turkish Government covers losses that would exceed the overall claims-paying capacity of the TCIP, which is currently sufficient to withstand a 1-in-350-year earthquake.

Since the programme began in 1999, insurance penetration for catastrophe coverage has increased six times, providing coverage to approximately 3.5 million Turkish homeowners.

(Source: World Bank, 2011).

C. INFRASTRUCTURE

Understanding the availability of infrastructure is critical as investment may be necessary to create infrastructure for insurance. For example, weather stations, satellite images or historical weather data are needed for agricultural insurance; whereas medical facilities, pharmacies, dispensaries, health centres and medical statistics are essential elements of health insurance programmes.

IT systems, and controlling and reporting mechanisms can be seen as general infrastructure required for programmes that aim to reach scale and efficiency.

In the case of programmes where payment collection from individuals or payouts to individuals are part of the design, the assessment of aggregators for transactions is required, particularly in very low-income communities in the urban setting, and in general in the rural areas.

D. LEGAL AND REGULATORY FRAMEWORK

Having a clear and well-defined legal and regulatory framework provides certainty to insurers, service providers and aggregators, who may need to invest in a PPP. The tendering process should be designed in such a way that the Government's objectives and expectations are clear to the industry. The contracting of PPPs should allow for flexibility and adaptations as the programme needs evolve. Implementing dispute resolution mechanisms can improve the way that the private sector and the government interact in the long term.

Conflicts of interest between the government and the insurance industry can be common and the legal framework should guarantee access to all insurers with an interest, particularly when there are public insurers involved.

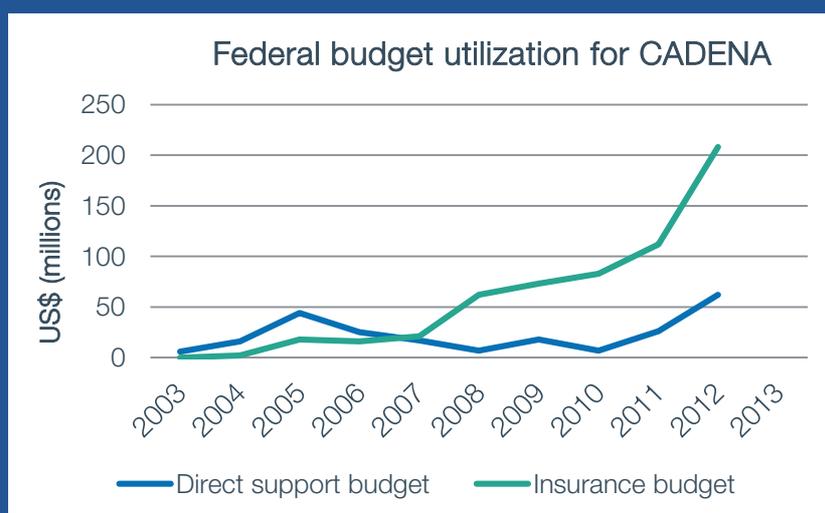
Consumer protection mechanisms for clients and beneficiaries – like information provision, complaints procedures, awareness-raising and education – need to be included as a way to create trust in insurance products and the insurance industry.

E. FINANCING

In most PPPs, an essential factor in the viability of a programme is a sustainable financing scheme that stimulates the participation of the insurance industry while at the same time reducing government costs and leading to affordable products for low-income households. One of the most common incentives is government subsidies. Properly used, subsidies can be a useful tool for governments to achieve policy objectives. Their ultimate goal should be to correct market failures by financing the development of insurance products for previously excluded groups. However, it may be more efficient to first subsidize investment that makes the market more efficient (for example, collection of data on risk, building of infrastructure, training of providers, development of technology, awareness and education campaigns) before providing traditional premium subsidies. Subsidies should always be provided for ex-ante assistance, rather than ex-post. CADENA provides a good example of how moving from ex-post to ex-ante subsidies can make an insurance programme more efficient (Box 4).

BOX 4. CADENA's "smart subsidies"

In 2008, SAGARPA increased the federal subsidy for ex-ante catastrophe insurance premiums to 90 per cent and reduced the subsidy for ex-post direct assistance funds to 50 per cent. This change marked a turning point for CADENA, catalysing exponential growth in premiums in absolute and relative terms compared to ex-post direct assistance. The following chart shows how catastrophe insurance overtook ex-post direct assistance:



With greater incentives to act preventively rather than reactively, states' demand for insurance grew steadily and was reinforced with each claim paid. While this explosion of demand has increased CADENA's budget substantially, from just US\$6 million in 2003 to US\$292 million approved in 2014 (excluding administrative costs), reliance on insurance over ex-post direct assistance has secured significant cost savings. The premiums of insurance are potentiated by 6.9 times of cover.

For instance, in 2013, total insurance subsidies amounted to US\$22 per hectare of annual crops, compared to US\$220 per hectare spent on direct assistance. Similarly, the federal and state governments combined spent just US\$10 per animal unit on insurance, compared to US\$60 for direct assistance to livestock losses.

More important than the actual cost savings is the fact that CADENA's incorporation of insurance has protected the federal and state budgets from the volatility of requests for ex-post public assistance caused by unpredictable catastrophic events.

F. RISKS AND TARGET POPULATION

Defining beneficiaries carefully ensures that resources are used efficiently and that they reach the target population. The definitions of beneficiaries and risks need to be based on clear population segmentations that make it easy to identify and reach beneficiaries. Understanding the risks faced by a target population is essential when designing products to provide better value to beneficiaries. Risks should be defined on the basis of demographic, epidemiological or risk maps. Market studies are useful at this stage to gather information as well as to identify needs. The population can be segmented using geographical, demographic, behavioural or socio-economic parameters, among others.

In Peru the beneficiaries (small- and medium-scale producers) are defined on the basis of a combination of a maximum amount of yearly sales and hectares. The risks covered are drought, excess humidity, frost, low temperatures, floods, avalanches, hail, fire, strong winds, high temperatures and pests. However, several problems have emerged owing to flaws in the definitions of risk and the target population. The definition of beneficiaries proved to be difficult to apply in practice because of inconsistencies, and there were no homogeneous criteria for the selection of crops to be insured in all regions.

In Colombia the definition of beneficiaries was based on information from existing programmes, partly in order to take advantage of the permanent field officers who facilitated information dissemination and premium collection: the beneficiaries were recipients of conditional cash transfers from Familias en Acción with savings accounts opened for that purpose, and those who also belonged to Red Unidos..

In the case of Mexico, the target beneficiaries are vulnerable smallholder farmers defined as producers with up to 20 hectares of annual crops, up to 10 hectares of fruit crops or up to 60 animal units. SAGARPA gradually expanded the eligibility criteria, most notably by including producers with access to irrigation and producers with commercial insurance who wished to add catastrophe coverage. While some observers worried that this expansion deviated from the initial focus on low-income populations, the changes were necessary to accommodate the different socio-economic profiles between northern and southern Mexico.

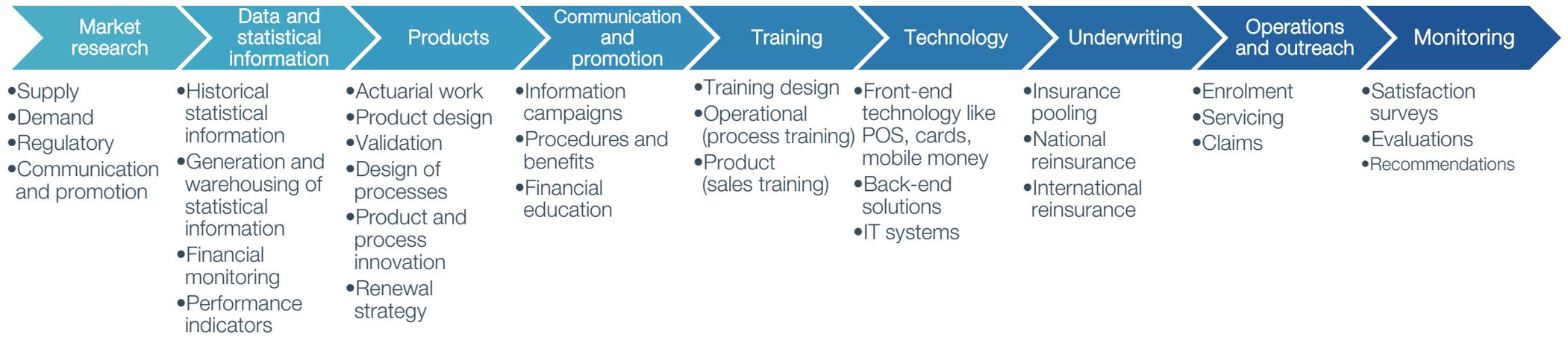
G. DEFINITION OF ROLES

One of the most important stages in the design of a partnership is the definition of the roles that each stakeholder should play. Although the proposed definition of PPPs states that the main actors are the insurance industry and the government, there are several activities in the process of implementing a PPP to which different actors, such as service providers and aggregators, can contribute – which brings further complexity to the assignment of roles. The activities that need to be carried out are outlined in Figure 7.

The assignment of roles can depend on factors such as the capacity of each partner, the financing structure, the legal framework and the maturity of the market. An analysis of critical activities will help to prioritize and define the ones that are crucial to the success of the partnership. The financing mechanism for all activities needs to be defined at all levels to guarantee transparency. Each partnership design will differ as these activities can be overseen by either the public or the private sector, subject to the context and objectives.

There may also be an asymmetry between the public and private sectors in terms of the qualifications and level of specialization of their personnel, which can lead to the private sector being in a stronger position. This can reduce the confidence of the public sector and prevent it from participating fully in the PPP. Capacity building for the public sector can be useful to support governments to develop their understanding of insurance. Furthermore, the interaction with other stakeholders, like aggregators and intermediaries, needs to be aligned with the PPP.

Figure 7. Activities by stage of implementation



SUCCESS FACTORS

1. Clear programme objectives and an understanding of how insurance helps to achieve them should lead the structure design
2. Insurance cover needs to be based on a deep understanding of the risks that final beneficiaries face
3. Clear definitions of beneficiaries can help the insurance industry implement the programme better
4. The definition of roles should capture all critical activities and financing needs, and take into account the capacities of the different partners

Partnerships must evolve over time. Flexibility to adapt the structure, definitions of beneficiaries and roles, financing mechanisms, subsidy levels, operational rules and monitoring mechanisms will enhance the natural evolution of a programme. Carrying out solid evaluations and documenting lessons learnt are powerful ways of enabling programmes to achieve their defined objectives better.

STEP 2: INDUSTRY ANALYSIS

After the programme has been designed, the government has to understand the capacity of the insurance industry both in financial and in operational terms. An engagement with the industry is required to assess the needs and interest of the market as well as the availability of reinsurance when necessary, depending on capacity of the insurance industry to underwrite particular risks in terms of size and covariance. In this step, the purpose and requirements of the partnership must be stated clearly for the insurance industry. The analysis carried out will enable the government to integrate capacity building, infrastructure, reinsurance and financial considerations into the next steps. The government can start to develop the operational guidelines of the programme. They can draw on past experiences in the local context as well as on foreign experiences to enrich the analysis and integrate stakeholders more fully.

Even though the public sector has access to a lot of information that can be useful for insurance programmes, sometimes this information is not collected by the group of people that will be designing the programme. More interaction between different government agencies may be needed to gather all the information necessary.

In India the industry analysis process involved a task force with a broad set of stakeholders including representatives from the insurance industry, relevant ministries and the technology industry, as well as from international organizations such as the World Bank and GIZ. It evaluated the past experiences of different health microinsurance schemes in India and internationally. A number of RSBY's features draw on past experience from public and private insurance schemes.

BOX 5. Flaws in Peru's industry analysis

Early attempts by the Peruvian Government to bring formal risk-management mechanisms to rural populations go back to 2003, when a commission was created to outline the main design criteria for agricultural insurance and its regulation. In 2004, a committee was formed to develop the necessary studies and rules to implement a policy of agricultural insurance, with technical assistance from the State Agency of Agricultural Insurance of Spain (ENESA) and the Commodity Risk Management Group (CRMG) of the World Bank. Unfortunately, neither initiative thrived, mainly because of a lack of political support.

Subsequently, in 2006, the Agricultural Insurance Development Unit (UDESAs) was created, with the aim of implementing insurance. This unit did not receive the necessary political support to operate successfully either. However, the Ministry of Agriculture engaged further technical assistance for the development of a pilot project. As before, this initiative also failed.

The founding of SAC began with the creation of a Guarantee Fund in 2006. In 2008, the Ministry of Agriculture hired the Mexican consulting firm LatinRisk to develop a new study for the design and implementation of agricultural insurance. Although this study finally laid the foundation for the development of SAC, it did not take into account Peru's previous experiences in this area. Finally the Government approved the general terms of operation for SAC and it started to operate in 2009, 6 years after the first attempts to bring create such a body.

The initial strategy by Banca de las Oportunidades to get insurance companies interested in the low-income market was to conduct a market study that investigated the potential demand for microinsurance and people’s perception of it. Nevertheless, it was challenging to get insurance companies interested. After two void tender processes, it was clear that the process had to be modified to engage with the industry (Box 6).

The attempts in Peru to develop an agricultural catastrophe product can be seen to represent how an uncoordinated industry analysis combined with a lack of political support can significantly lengthen the process of forming a functional PPP (Box 5).

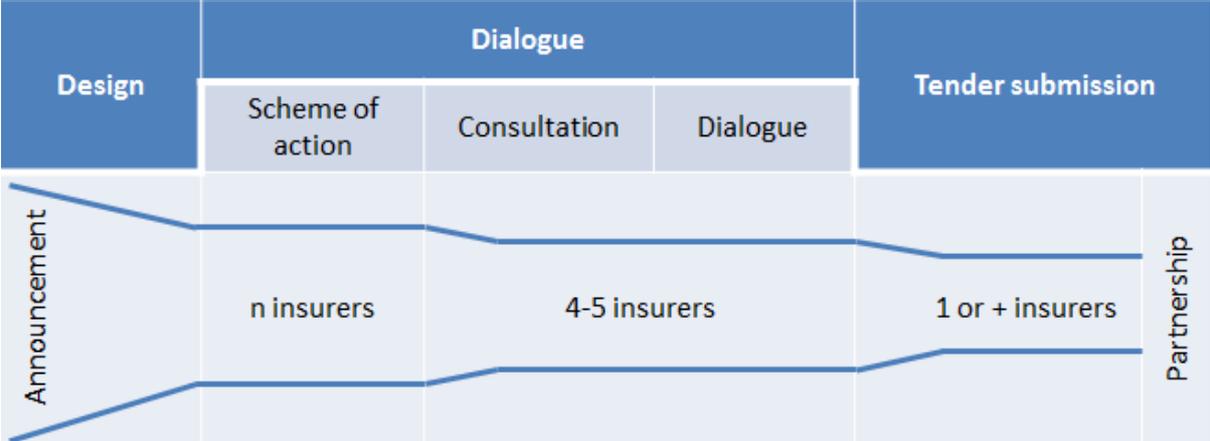
SUCCESS FACTORS

1. Governments should make sure all parties have an interest in the scheme and participate in the concept development
2. Governments need to understand the capacity-building and infrastructure needs in order to integrate activities that tackle them
3. Reinsurance should be incorporated into the process at an early stage
4. Clear and transparent rules and operational guidelines can encourage private insurers to adopt new strategies and assume new risks

STEP 3: TENDERING, ASSESSMENT AND SELECTION

Once the government has managed to engage insurance companies, it can introduce a process to assess and select partners. To ensure fair competition among industry players and guarantee that partners can meet the requirements of the government programme, it is optimal to follow a competitive tendering process that leads to a constructive dialogue. Competitive tenders can guarantee transparency and maximize the chances of identifying the partner best suited to the local context. Figure 8 outlines a possible process.

Figure 8. The tendering process incorporating constructive dialogue



Source: Voordijk, 2013.

The tendering process varies depending on how roles related to product and process design are defined and whether it is the government or the insurance industry working on these tasks. In the end, the government decides how it will involve insurers in the product, distribution, communication and process design, depending on the needs of the programme and the national or regional context. The government must ensure that the contract remains attractive to insurers. The case of Colombia can help to provide lessons about the considerations to take into account around the design of tender processes (Box 6).

BOX 6. Challenges in Colombia's tendering process

The initial tender invitation asked insurance companies to offer life, disability and funeral microinsurance to 470,000 beneficiaries of the Red Unidos and Familias en Acción public programmes. As an incentive to insurance companies to explore this new market, the Government offered to pay the first year's premiums and half of the second year's on behalf of people who renewed as a result of the insurance company's sales activity, with an commitment to finance at least 50 per cent. The contract would be won by the company that obtained the highest score by offering the best product, beneficiary support, and collection mechanism at the lowest premium.

Three successive invitations to tender had to be issued since insurance companies failed to respond to the first two. This was mainly because of concerns about the financial viability of the proposed scheme. Consequently, Banca de las Oportunidades decided to revise the project design and hired a consultant to talk to the different stakeholders (especially insurance companies) in order to understand the constraints they faced and to adapt the design accordingly. Taking into account the lessons learned from the initial experience and the insurance companies' concerns, the second phase included significant changes to the contract, with the main characteristics of the new pilot being:

- only life and funeral insurance required
- a contract for 1 year with 100 per cent of the premium covered by Banca de las Oportunidades
- no renewal obligation.

These changes proved to be effective. For the third tender invitation, five insurance companies submitted proposals and the contract was awarded to Positiva, a government-owned insurance company.

Despite the efforts of Banca de las Oportunidades and Red Unidos, this particular proposal ended up sacrificing the long-term perspective as a result of long and cumbersome discussions with insurance companies. From the insurance companies' perspective, the pilot was short-sighted, as they could only count on government support for 1 year and the renewals process was not taken into account.

In the CADENA scheme, the states select an insurance company to provide coverage to predetermined geographical areas and crops. Previously, SAGARPA required states to submit bids from several different insurers to a centrally coordinated technical committee, which then selected the final provider on behalf of the states. Centralized committees were useful while states were still relatively unfamiliar with insurance concepts, but the tender process was fully devolved to the states in 2012 to give them greater autonomy. States are no longer required to consider multiple bids, which some insurers think could damage competition.

India's RSBY scheme provides a good example of a competitive tendering process that has led to better partnerships. The State Nodal Agency (SNA) is involved in contracting insurance companies in accordance with the guidelines issued by the MoLE. These insurance companies (public as well as private sector) are contracted through a competitive bidding process. Eligibility criteria include a valid licence from the Insurance Regulatory and Development Authority at the time of application.

By contrast, in Peru the selection process of the insurance company is not officially regulated, which could generate moral hazard problems between insurers, brokers and representatives of the regional governments. In addition, the short deadline for submission of proposals (5 days) discourages the possible involvement of new companies, thereby limiting the potential development of a bigger market for agricultural insurance.

The length of the engagement is an important determinant of how attractive the contract is to the industry. Many of the case study schemes invite tenders for 1-year contracts. In this case the uncertainty of regaining the contract can deter the industry from taking a long-term perspective. To counteract this, governments can offer longer-term agreements with yearly adjustments to particular terms based on the experience and results. In the case of yearly bidding there should be enough clarity in the medium term about how the process will work in the future. This process needs to strike a balance between engaging with insurers in the long term and bringing new players into the process in order to foster competition and create better services and greater efficiency.

SUCCESS FACTORS

1. A competitive tendering process will result in more and better bids from insurers
2. The government should try to design incentives to promote the participation and engagement of the insurance industry
3. Legal certainty is needed to provide insurers with an incentive to enter partnerships with a long-term perspective

STEP 4: IMPLEMENTATION

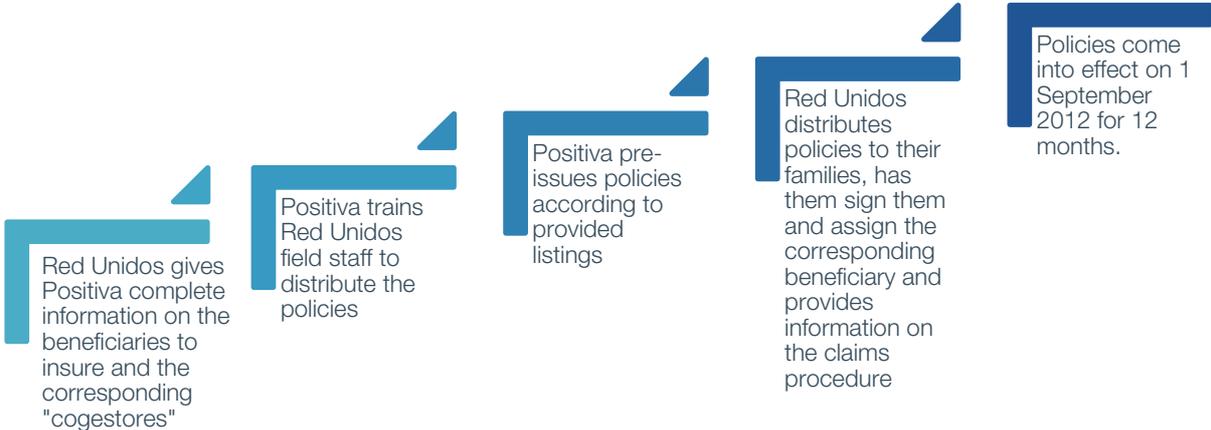
The main challenges of a PPP usually appear during the implementation stage. After the partner-selection process, the next step is agreeing on the terms of the partnership and the implementation process. The partners should start by clearly identifying the roles and responsibilities for both sides, and agreeing where all operational issues should be addressed. Finally, it should be ensured that the proper channels to facilitate communication during the implementation are available.

A. OPERATIONAL RULES AND GUIDELINES

One of the most important elements in the implementation of an insurance programme is clarity on operational rules for the government, the insurance industry and third-party providers. Rules and guidelines need to be designed not only to take into account the roles that each partner will play but also to give clarity about critical paths to be followed for all activities during the implementation.

It is common for public sector processes to take longer than expected. In some cases, this has resulted in cover becoming active after the risk event has already taken place. In general, yearly planning can give certainty to partners, but rules and guidelines can be adapted over time to take into account changing conditions and the evolution of programmes. The operational process used in Colombia to establish milestones and the main activities is depicted in Figure 9.

Figure 9. Red Unidos’ operational process



Although the operational process was well defined in the Colombian case, there were still some uncertainties; for example, for the renewals process, activities that were not included in the contract had to be carried out, and the costs had to be assumed by the insurer. Furthermore, there were several unexpected delays: it took longer than expected for stakeholders to reach agreements and a lack of consistency among government guidelines also hampered progress, while planning the renewals' process, and defining the administrative and operative details were more complex than anticipated.

In India, the MoLE plays a major role in making decisions on scheme structure and implementation, and also drafts standard documents, defines operational processes, and monitors implementation. Insurers are contracted for 1 year, a feature designed to spur healthy competition. They are responsible for empanelling hospitals, enrolling beneficiaries and processing claims. Some insurers hire third-party administrators to support these functions.

BOX 7. The successful implementation of CADENA

Most stakeholders believe that establishing and enforcing clear rules and processes was critical to CADENA's success. As the central coordinator of the scheme and the largest contributor of resources, SAGARPA draws up the rules and guidelines of operations each year, in consultation with state governments and insurers. SAGARPA's General Director for Attention to Climate Change, Victor Celaya, explained that while CADENA could have bent the rules on subsidies or eligibility requirements to accommodate especially severe events, such as the 2011 frosts, this would have created a slippery slope that threatened the credibility of the programme.

Among other things, respect for CADENA's annual rules of operation has essentially allowed smart subsidies to do their job, leaving no room for doubt. While firm, rules have not been static. Since 2003, CADENA has undergone over 120 changes, including the subsidy adjustments mentioned above. Most aimed to expand eligibility criteria, promote higher private sector participation and greater autonomy for state governments, and give greater flexibility to Agroasemex to act as direct insurer in markets where the private sector was wary of trading.

SAGARPA in Mexico coordinates the entire CADENA scheme. This includes defining subsidies, target segments, rules and guidelines; monitoring the scheme overall; managing subsidies; and negotiating the terms of centralized coverage options through public insurer Agroasemex. The states identify areas, risks and crops to insure; purchase coverage through one of the CADENA mechanisms; report emergencies and hazards as they occur; claim and receive benefits; and distribute benefits to covered farmers. Private insurers play an increasingly important role within CADENA as direct insurers to the states through the federalized mechanism. When catastrophes occur, all stakeholders collaborate to pay indemnities to farmers as efficiently and fairly as possible. The state authorities and insurers then agree upon and submit the claims jointly. Once the insurer approves a state's claim for payment, the state is responsible for coordinating with local officials to distribute the benefits (Box 7).

B. ENROLMENT

Enrolment can happen either through defined listings of beneficiaries, which can be provided by government agencies, or through direct enrolment processes that are designed to identify and service beneficiaries.

In the case of listings the ideal scenario is that the government is able to state who the beneficiaries should be on the basis of their records of recipients of different programmes or their own identification of beneficiaries. This can be problematic because information can become out-dated, and it can be difficult to identify families, and also because a lack of transparency can easily lead to corruption. These kinds of

problems can tarnish the reputation of the whole programme. Cross-checking the beneficiaries through NGOs or other public programmes can create more accountability. In the case of direct enrolment, delivery channels and aggregators are crucial to ensuring that this is carried out properly.

In Peru, the regional Government, through its agricultural agencies, enrolls and validates the beneficiaries (small- and medium-scale farmers). Similarly, in Mexico the states often rely on municipal officials to inform constituents about their coverage, alert them if indemnities become available after an insured event, and organize distribution of payouts. The states send a list of beneficiaries to SAGARPA, requesting reimbursement of the corresponding federal premium subsidy. To make the best use of resources and avoid duplications and omissions, states often rely on lists held by the ProCampo programme (which has a similar target population) to identify eligible producers.

In RSBY, insurance companies are responsible for the enrolment of beneficiaries, which is conducted by the insurance company's representatives in the presence of a government functionary, who is assigned the role of a key field officer. Annually, an electronic list of eligible BPL households is provided to insurers by each participating state. An enrolment schedule for each village, along with dates, is prepared by the insurance company with the help of district officials.

In Colombia, insurance was issued to beneficiaries of both Familias en Acción and Red Unidos from a list provided by the latter. Red Unidos collaborated with the insurance company, offering a network of more than 10,000 field officers, called *cogestores*, to support the enrolment process by locating and identifying the beneficiaries, helping the insurance company with distribution, and giving families information about the product and the renewals process.

C. PREMIUM PAYMENT

Some of the insurance programmes want to make more effective use of public resources by transferring subsidies directly to the insurance industry; in some other cases a premium collection mechanism needs to be set up and implemented. When there is no premium payment by the beneficiary, awareness about the cover can be limited. The relationship between the collected premium and the cost of collecting it needs to be analysed, as sometimes this cost can be too high. This is why some of the programmes pay the subsidy directly to the insurance company – as a way of avoiding the insurance collection component instead of having to put in place premium collection infrastructure. In cases where a premium will be collected, current initiatives around financial inclusion, mobile money and agent networks provide new opportunities to improve this process.

In RSBY, the central and state governments jointly finance the premiums for beneficiaries. The state government transfers its share of the premium to the SNA and informs the central Government. Then, the central Government transfers the premium to the SNA, which is responsible for paying the insurer after the number of enrolments is confirmed.

In order to attract insurance companies to bid for its contract, the Colombian Government offered to pay the first year's premiums. However, to renew the policy, clients had to pay the whole premium themselves, as they were no longer subsidized by the Government. Since all beneficiaries had at least one savings account with Familias en Acción, it was thought that the premium could easily be debited from the account, after authorization was received from the client, but in practice the payment turned out to be the most difficult part of the process, as it was difficult to get the debits authorized.

In CADENA, the federal Government initially subsidized 80–90 per cent of premiums for the catastrophe insurance, and the state government paid the rest, meaning that the final beneficiary never has to pay a premium.

In Peru, the central Government finances the premiums through FOGASA funding,¹ and the regional governments hire the insurer after a selection process. Although the SAC is geared towards farmers, regional governments are actually the direct beneficiaries of the state subsidy since it is they who negotiate, contract and implement the SAC.

D. COMMUNICATION AND PROMOTION

Communication and promotion activities are often neglected in PPPs. It is important to include these activities as part of the design of a partnership and allocate an appropriate budget according to the scale of the programme. Communicating about the benefits of the protection offered is key to giving beneficiaries the peace of mind that the cover can provide and also to creating behavioural changes like increased use of health services and greater investment in productive activities. This is a challenge, particularly in those programmes where there is no premium payment involved.

In Peru, as final beneficiaries do not have to pay the premium, they do not know in advance that they are included in the programme. If there is a catastrophic event, the community leaders, together with the functionaries of the agricultural agency, make a list of farmers who may receive compensation. Therefore, the most important channel to spread the news about the SAC is the community leaders, who receive information directly from their agricultural agency. Since 2014, to raise awareness among beneficiaries, insurance companies that apply to the SAC have had to propose a communication plan that includes TV spots and radio announcements as well as brochures (Box 8).

BOX 8. La Positiva's communications strategy

La Positiva is one of the two insurance companies that provide catastrophe cover for the SAC in Peru. Its implementing team realized that the final beneficiaries were not aware of the cover. To overcome this and to encourage the beneficiaries learn about other insurance cover, it developed a communications and promotion campaign.

First, in contrast to the other insurer participating in the programme, it decided to organize events for claims payments in order to have an opportunity to explain the product and increase awareness of insurance. Second, it also developed a media campaign that included printed materials, and local radio and television spots. The communications team learnt that local broadcasters offered very competitive prices, which made it feasible to disseminate promotional material cost-effectively.

This mix of events and communications tools has been useful for raising awareness about the SAC's cover and also to present new insurance products to the beneficiaries to complement the protection provided by the SAC.

Similarly, raising the awareness of producer beneficiaries is also improving CADENA's results. Previously, few farmers were aware that they had coverage under the scheme, and those who did know about it were unaware that it was provided primarily through insurance. After a decade of operation, farmers have become more familiar with CADENA and catastrophe risk insurance, while local governments promote this directly and effectively. Since 2012 SAGARPA has also been delivering training workshops for producers.

In India, insurance companies are required to establish an RSBY helpline and call centre in each district. They are also responsible for information, education and communication activities before enrolment. To communicate and market the RSBY scheme and enrolment campaigns, insurance companies are required to hire intermediaries to provide grassroots outreach prior to enrolment. After enrolment, information becomes primarily the responsibility of the states.

¹ Fondo de Garantía para el Campo y del Seguro Agropecuario (Guarantee Fund for Agricultural Insurance)

In Colombia, during the initial phase of the programme the general information about the product and the corresponding processes were communicated through Red Unidos field officers. For the renewals process additional activities that were not mentioned in the contract had to be carried out by the insurer, including a motivation campaign through radio and the provision of printed material, as well as events or meetings to give general information about the renewals.

E. CLAIMS

Servicing beneficiaries well is one of the most important ways of improving people's experience with insurance. Given the high volumes that these programmes can achieve, it is important to establish efficient and reactive claims processes. Developments in IT systems and mobile money can help to expedite claims and raise awareness about the benefits of insurance among target populations.

When catastrophes occur in Mexico, all stakeholders collaborate to pay indemnities to farmers as efficiently and fairly as possible. Since benefits are fixed per farmer by crop, local officials only need to verify the damaged areas. The state authorities and insurers then agree upon the claims and submit them jointly. Once the insurer approves a state's claim for payment, the state is responsible for coordinating with local officials to distribute the benefits. Distribution methods vary state by state, but usually involve regional mass meetings where farmers receive either a cheque or cash, depending on the accessibility of financial services in farmers' communities. These mass events also serve as a critical moment to promote the programme with beneficiaries.

The claims process in Peru begins when community leaders provide the list of farmers affected to the state agricultural agencies. First, it has to be determined if the trigger for payment was activated (average return of the insured crop, expressed in kilos per planted hectare, is less than 40 per cent of historical performance). Second, the company adjuster determines the total lost hectares. Finally, the payments must be claimed in the provinces, forcing farmers to travel long distances and spend money on transportation. In many cases this burdensome process leads to payout delays (up to 7 months). The long response times combined with the sometimes limited cover in some cases generates a negative perception by farmers.

SUCCESS FACTORS

1. Operational rules and guidelines foster strong implementation and certainty among partners
2. Subsidies can be a powerful tool to support insurance, while further strategies need to be adopted to provide extra services with options for beneficiaries to buy further cover
3. Awareness-raising and communication are necessary to make beneficiaries aware of their cover and engage their interest in these programmes
4. An efficient claims-management process is essential to increase client value

STEP 5: MAINTENANCE

During the implementation of the programme there should be continual collaboration and communication between the partners in order to ensure that the programme operates as planned and to manage any issues that may emerge. Certain factors should be considered in order to maintain proper programme operation. These are discussed in this sub-section.

A. DATA COLLECTION FROM EXPERIENCE

Gathering information for both monitoring and statistical purposes can help to improve the performance of a programme. Particular infrastructure needs to be in place in order to collect and manage information. It is also necessary to consider the public nature of the information when it comes to creating the incentives for the industry to participate in order to create more competitive markets.

The Indian Government maintains responsibility for regulation, information systems and ultimate oversight of the RSBY scheme. One of the key strengths of RSBY is the real-time monitoring and evaluation system that is enabled by the programme's comprehensive technology infrastructure. The scheme's management information system was built centrally so that all state-led RSBY schemes could collect standardized information on all daily transactions at hospitals. The collection of this information allows the insurer to track claims, transfer funds to the hospitals and investigate claims. Governments are able to monitor the use of the programme by members and, to some extent, begin to measure the impact of the programme.

In contrast, the SAC operation faced difficulties in Peru because information was not collected and shared. The claims adjustment process did not feed into an information system. There was no formal budget for collecting information. Data collection generated operating costs for insurers, affecting their ability to provide more competitive premiums.

B. LEGAL, REGULATORY OR POLITICAL CHANGE

PPPs are sensitive to changes in the legal, regulatory or political environment. Government priorities may change when the political environment changes or when a new government comes to power. The key challenge is for the agreements and relationships between the industry and the government to be maintained beyond these changes. Specific steps need to be taken by all partners to ensure that the PPP survives any changes.

As far as the government is concerned, increasing capacity and assigning responsibility for the PPP at different levels supports sustainability. In Mexico, SAGARPA realized it was spending significant resources on educating incoming state and local officials about CADENA and the need for insurance, only to see that the buy-in disappeared with the officials at the end of their term. To combat this trend, seminars were developed oriented towards third-rung officials, who unlike their superiors, are often retained after elections.

The industry should act strategically, identifying the needs of governments as well as analysing competing risk coping mechanisms in order to improve the design of its products. A thorough understanding of the local government structure and decision-making processes can help identify key persons in the local administration to work with, thus enabling insurers to provide information to the right person when change occurs. Research can also be useful to provide relevant data about the impact of the insurance on the households and communities (Box 9).

BOX 9. Protecta working with municipalities in Peru

Since 2009, Protecta Compañía de Seguros has been collaborating with municipalities in the Lima metropolitan area to provide a life insurance product to people when they paid their municipal services tax. Insurance is an extra service provided by the municipality. The initiative has included an insurance education campaign carried out in collaboration with the municipality.

Protecta first had to understand the benefits that the insurance product could bring to both the municipality and the final beneficiaries. The first step was to consider what the other mechanisms were that municipalities used to motivate people to pay the municipal services tax – for example, raffles or fines. Protecta also established that the databases of many municipalities were out of date. With this initial information the insurance company could pitch to the municipal authorities about the benefits of insurance compared with other mechanisms and could offer an additional service: improving the updating of municipal databases by integrating new technology.

Understanding the internal structure of the municipality and its decision-making processes became important in the face of political change. The greatest challenge to the continuity of the programme occurred after elections, as a new administration took control of the municipality, and questioned the insurance programme. Protecta had to learn how to approach the new municipal Government and demonstrate to them the positive impact of the product. This involved identifying the key public servants who had to be approached to relaunch the programme.

To assess the impact of both the product and the educational campaign, Protecta collaborated with a local research centre. The results that the research highlighted should help Protecta to show municipal administrations the benefits that insurance can have. For example, in the municipality of Comas where the programme was implemented, tax collection improved by 20 per cent in 1 year, compared to municipalities where it was not implemented. The local population expressed their interest in continuing with the programme. The impact study also showed how families that used the product had a stronger knowledge of insurance and a better understanding of the importance of risk management. When asked for their opinion, families placed access to the insurance service on similar levels to citizen safety and protection. These results will be used to engage further with the Government and will be shared with other municipalities.

SUCCESS FACTORS

1. A programme's operation should integrate maintenance mechanisms that keep it running smoothly and that help solve any issues that emerge during its implementation.
2. Efficient data and information management and sharing are essential to improve the programme
3. Potential legal, regulatory or government changes should be anticipated, and mechanisms to reduce their impact should be designed

STEP 6: EVALUATION

The monitoring and evaluation protocol for the PPP needs to be designed at the outset, and should include definitions of the indicators to monitor and an outline of the process for data collection. Baseline studies are needed to be able to understand the initial situation of the target audience, in order to compare this information with results over time. In the case of programmes with a subsidy component, it will be important to analyse the cost-effectiveness of the subsidies. Evaluation must include both an

analysis of the programme results and an assessment of the relationship between partners.

The cost of monitoring and evaluation should be considered in the initial design of the programme, on the basis of how these activities will be carried out.

As the programme is implemented, it is necessary to monitor its operation and conduct the evaluation activities in a timely manner. Considerable capacity building is necessary in order to supervise this process and to ensure transparent use of resources

Rigorous and independent evaluations should be key activities in a PPP. Even if the results expected are being achieved and the desired impacts occur, it is important to work on better understanding. Regardless of whether the objectives were achieved, the successes and failures of the programmes serve as learning experiences for programme improvement as well as for other experiences.

For example, the enrolment, hospitalization and claims data in RSBY are regularly analysed at the national level and shared with SNAs. In addition, the Government is planning to produce periodic reports on selected indicators to be shared with all the stakeholders in the near future. However, RSBY has yet to establish the institutional arrangements to systematically perform key functions such as oversight, supervision, regulation, ensuring transparency, providing consumer information and protection, and data management and analysis. RSBY relies heavily on insurance companies as intermediaries to perform some of these functions.

In the case of Mexico, CADENA has embedded an evaluation and audit component in its activities as a way to assess the efficiency of the operations. As programmes like CADENA and RSBY reach scale, further collaboration is needed with academic and evaluation institutions to test the impact of these interventions in terms of vulnerability reduction, family well-being, income security, behavioural change, or other parameters to be defined through public policy.

Furthermore, the financial sustainability of programmes must be measured, partly because it is the key to ensuring private sector engagement in the longer term, but mostly to prove if insurance can be the most efficient mechanism to address particular risk-transfer and risk-management issues. Therefore, it is important to compare insurance with other mechanisms.

SAGARPA also sets out strict monitoring mechanisms in its rules of operation and allocates budget to them annually. For instance, it pre-approves all beneficiary lists for eligibility before state governments distribute payouts, and then verifies a random sample of beneficiaries to ensure the correct person received the designated benefit. Upon contracting coverage, states are also required to form a follow-up committee for sending quarterly (or monthly in case of claims) reports via SAGARPA's online management system. These processes achieve multiple objectives – they safeguard the integrity and credibility of CADENA, maintain focus on the target population, and avoid duplication of federal subsidies. Furthermore, SAGARPA requires insurers to send a report of indemnities made every 15 days. Finally, while SAGARPA's oversight is indispensable, controls implemented by private insurers and Agroasemex also help hold state officials and producers to account.

In Colombia, the pilot programme was successful in stimulating the private sector to penetrate new markets. Analysis of long-term sustainability issues, such as premium collection for renewals, showed that further collaboration between the Government and its private sector partners was needed.

In the case of Peru, the evaluation showed that the programme was facing many challenges. If it is not clear which crops take priority, the coverage amount per hectare can fall short in order to cover all the insured crops. While insurance has potential effects on consumption smoothing, it was observed that it was not achieving the expected effects, which are precisely the ones that can enable a fundamental

change in agriculture.

A. PROGRAMME IMPROVEMENT

The results of evaluations can be useful for bringing new ideas forward and improving the design, structure and operations of the partnership. Over time programmes will mature and new activities may come up, while some others will be deemed no longer necessary. Setting in place a structure for improvement will prove useful in this process.

Client feedback should also be considered as one of the elements in the improvement process. Client participation can help improve the programme, as it can increase acceptance from final beneficiaries.

SAGARPA has learned over time that education and awareness-raising – with both government agencies and farmer beneficiaries – are essential to the sustainability of the programme, as well as for building a viable market for catastrophe insurance among all socio-economic segments.

RSBY continues to improve and is testing new operational models and mechanisms for expansion. RSBY initially only covered only inpatient care, but later piloted outpatient benefits to improve the value of the scheme for beneficiaries. On the basis of early but encouraging lessons from the pilots, outpatient benefits are being extended to other districts, with funding from the Government.

The Peruvian Government is taking some action to improve the design and implementation of the SAC, including introducing new methods for evaluating catastrophic events and estimating triggers, new field adjustment procedures, and risk mapping for better targeting of beneficiaries and crops.

SUCCESS FACTORS

1. Evaluation mechanisms must be properly designed and integrated into the projects, and should include clear dissemination and knowledge-sharing strategies
2. Periodic programme evaluations are necessary to monitor performance and ensure improvement

STEP 7: TERMINATION

The termination of a PPP may have a variety of causes. The government, the insurer or both may be dissatisfied with the results and thus prefer to end the partnership. This adverse scenario can be the consequence of a lack of planning in the initial stage, a result of strong contingencies that make insurance unviable, or the lack of expected impact of insurance.

The termination of a PPP must be handled carefully, especially in order to ensure that clients remain covered by the insurance and that the procedures for the wrap-up do not affect people's perception of insurance. Consequently, if a partnership comes to an end, the government faces big challenges, which include keeping the programme running until beneficiaries can be informed, searching for a new partner and reconsidering the PPP structure with different solutions.

For example, a programme that has faced great challenges since its inception is the one launched by Red Unidos and Banca de las Oportunidades in Colombia. The long-term sustainability of the programme has yet to be demonstrated. Insurance companies need to find sustainability in the operation of such a programme; they state that the claims ratio is too high in relation to the premium, the premium payment collection for renewals has turned out to be more difficult than expected, even through a savings account, and the operation (delivering the policies, collecting signatures and finding the beneficiaries) would be unviable without strong government involvement. Still, the lessons that this first experience yielded can be used for the improvement of future interventions.

5. TEN RECOMMENDATIONS FOR SUCCESSFUL PPPS IN INSURANCE

Sustainable and effective programmes with scale are based on strong partnerships. Being able to design, set up and implement solid PPPs in insurance over time requires a long-term vision and a good understanding between partners. The following ten recommendations are based on the experiences of the partnerships analysed and aim to help both governments and the insurance industry to endeavour with better partnerships.

1. **Combine a strategic approach with flexibility.** PPPs in insurance require a careful design that can evolve over time as both the government and the private sector learn from the results and situations experienced. An approach that allows for this can give certainty to all parties. The establishment of clear rules and processes is critical for success; these rules can be adapted on a regular basis but sticking to them will strengthen the credibility of programmes.
2. **Define your target beneficiaries clearly.** Better and more significant cover can be provided to final beneficiaries when insurers have an optimal understanding of the risk profile and preferences of beneficiaries; at the same time insurers can price products correctly. Several things will be necessary to deliver valuable products: investment in obtaining historical data; supply and demand market research; epidemiological and eco-demographic profiles of target groups; agricultural risk assessments, databases with relevant information for product design, operations, communications, and so on. Concise definitions of final beneficiaries will also help to deliver the appropriate products and services to the right target.
3. **A solid legal and regulatory framework is needed.** This gives certainty to both the public and the private sectors around the commitments and investment needed to implement a programme over the long term. Collaboration between the public and private sector should be based on clear rules and a long-term vision. A long-term framework that gives room for modifications and adaptations will be important to support the start-up, development and improvement of PPPs.
4. **Use insurers as an ally to achieve public policy objectives.** Governments can avoid making insurance compete with other government initiatives. Instead insurance can be used as a complementary tool to align incentives and create behavioural changes, and to reduce and manage risks. On the other hand, the government can create incentives for the insurance industry to use its expertise and entrepreneurial approach to solve public policy problems.
5. **Allocate roles clearly between the public and private sectors.** Identifying all the critical activities involved in the partnership and then assigning different partners to them will help create accountability. In terms of the investment needed for particular activities and infrastructure, this also needs to be agreed, along with its source of funding, in order to create transparency around resource use and the cost–benefit balance of the programme. A stable coordination team should be created to guarantee continuity of the activities in the long term.
6. **Take account of the capacity-building needs of the different levels of the public sector (central, state and municipal).** Extra capacity might be needed to design policy, oversee insurance mechanisms, and monitor and audit insurance programmes. Capacity needs differ at different government levels depending on their involvement in the implementation of programmes; yet the involvement of all levels in a capacity-building programme can help to support the continuity of the partnership despite administration changes.
7. **The private sector should build its capacity around best practice, product innovation, pricing, reinsurance, distribution and technology.** A private sector that develops its capacity to understand low-income populations better and to implement large-scale programmes will be able to create the

results needed in the public policy domain and therefore demonstrate the success needed for further engagement.

8. **Endeavour to improve the value of products to be offered through PPPs.** PPPs offer an opportunity to some segments of the population to experience insurance mechanisms for the first time in their lives. It is therefore important that their experience is informed and positive. Activities to bring higher-value products to these segments will enable insurance to achieve its promise to both governments and final beneficiaries.
9. **Include monitoring and evaluation systems with clear indicators.** Establishing indicators that are accepted on both sides as part of the results of a programme brings accountability and permits partners to follow up programmes over time. The set-up of monitoring and evaluation mechanisms at the outset is an important way to establish a results-oriented environment. Evaluations over time will shed light on how improve the design and operation.
10. **Take a knowledge-management approach by documenting lessons, and measuring and sharing results.** This will help programmes evolve over time. Programmes that have been able to analyse their experience and learn from problems and challenges will, over time, improve the value and experience for final beneficiaries while achieving scale. Being able to learn from experiences will provide insights and ideas that can help programmes to prevent errors and foster faster growth and improvement.

6. REFERENCES

Dalal, A.; Zimmerman, E.; Magnoni, B.; Matul, M. 2014. Is there value in microinsurance?, Client Value Series Brief No. 1. (Geneva, ILO).

Fonseca, C.; Dalal A. 2014. Creating an enabling environment to improve client value. Client Value Brief 3. (Geneva, ILO).

International Labour Office (ILO). 2012. Recommendation R202 - Social protection floors recommendation, 2012 (no. 202). Available at: http://www.ilo.org/dyn/normlex/en/f?p=1000:12100:0::NO::P12100_INSTRUMENT_ID:3065524 [August 26, 2014].

Kimball, M.; Phily, C.; Folsom, A.; Lagomarsino, G.; Holtz, J. 2013. Leveraging health microinsurance to promote universal health coverage, Microinsurance Paper No. 23 (Geneva, ILO).

Ramm G.; Ankolekar, M. 2015. Situating microinsurance in social protection – Lessons from six countries (Luxembourg, Microinsurance Network).

Ramm, G. 2011. Public private partnerships in microinsurance, Discussion Paper No. 001 (Luxembourg, Microinsurance Network).

Voordriek, J.; 2013. Coen Tunnel: The Netherlands. Public private partnerships in transport: Trends & Theory (Belgium, COST)

World Bank. 2014. World Development Report 2014: Risk and opportunity – Managing risk for development. (Washington, DC).

World Bank. 2011. Global Facility for Disaster Reduction and Recovery. Turkish Catastrophe Insurance Pool. (Washington, DC).

IMPACT INSURANCE FACILITY

Housed at the International Labour Organization, the Impact Insurance Facility enables the insurance industry, governments, and their partners to realise the potential of insurance for social and economic development. The Facility was launched in 2008 with generous support from the Bill & Melinda Gates Foundation, and has received subsequent funding from several donors, including the Z Zurich Re Foundation, the World Bank Group, USAID and AusAID.



International
Labour
Organization


IMPACT INSURANCE

.....
impactinsurance@ilo.org

<http://www.ilo.org/impactinsurance>