MICROINSURANCE PRE-FEASIBILITY STUDY

ROMANIA

Prepared for:
Kreditanstalt für Wiederaufbau (KfW)
German Financial Cooperation

Development of Instruments for Financial Cooperation
in the Field of Microinsurance

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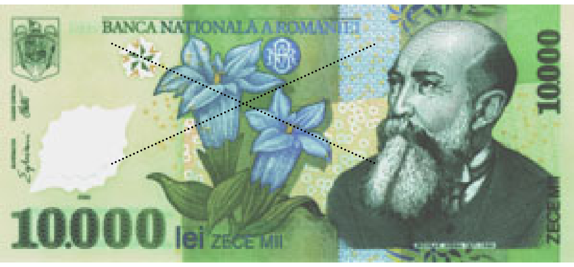
List of Abbreviations

AAR	Africa Air Rescue
AIG	American International Group
ASCA	Accumulating Savings and Credit Association
CDE	Economic Development Centre
CHF	Cooperative Housing Foundation
CIDR	Centre for International Development and Research
CU	Credit Union
DEG	Deutsche Investitions– und Entwicklungsgesellschaft mbH
DFID	Department for International Development (UK)
EBRD	European Bank for Reconstruction and Development
Est.	Estimated
EU	European Union
EUR	European Euro
FG	Focus group
FGD	Focus Group Discussion
GoR	Government of Romania
GPA	Group Personal Accident
ILO	International Labour Organisation
MFI	MicroFinance Institution
MFP	MicroFinance Provider (includes MFIs, credit unions, banks, and less formal financial structures)
MIG	Minimum income Guaranteed
MoF	Ministry of Finance
MoH	Ministry of Health
NBR	National Bank of Romania
NGO	Non-Governmental Organisation
OMRO	Opportunity Microcredit Romania
PPP	Purchasing power parity (in terms of macro-economic information)
PPP	Public-Private Partnership (in terms of microinsurance interventions)
ROL	Romanian Leu
RON	Romanian New Leu
ROSCA	Rotating Savings and Credit Association
SEE	South-Eastern Europe (SEE-3 are EU candidate countries including Romania, SEE-4 are not)
SEWA	Small Enterprise Women's Association (India)
SME	Small and Medium Enterprises
STEP	Strategies and Tools against social Exclusion and Poverty (an ILO program)
TACIS	Technical Assistance to the Commonwealth of Independent States
USD	United States Dollars
USAID	United States Agency for International Development
WOCCU	World Council of Credit Unions
VAT	Value Added Tax

A note on Romanian currency:

As of 1 July 2005, Romania's legal tender, previously coded as ROL, has been redenominated so that ROL 10,000 is exchanged for 1 new Leu (RON). The existing banknotes and coins, i.e. the old lei, shall be legal tender until 31 December 2006 when the existing banknotes and coins will be replaced gradually by the new banknotes and coins. Starting **1 January 2007**, the exchange shall be made only at the National Bank of Romania branches carrying out payments and at the offices of the credit institutions authorised by the NBR Governor's order to perform the exchange. There is no time limit for exchanging ROL notes and coins for RON notes and coins.[1]



The exchange rates used for conversions in this paper are based on the rates of 15 November 2005. The exchange rates at that time were: 1 USD to 31,118 ROL or 3.1 RON and 1 EUR to 36,392 ROL or 3.7 RON.[2]

[1] http://www.bnro.ro/def_en.htm (sourced 1/05/06)
[2] http://www.oanda.com/convert/classic (sourced 1/05/06)

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The authors' offer sincere appreciation to all the people on the list of People Visited in Appendix 6, and all those who participated in focus groups and interviews. They were all open and welcoming and very tolerant of the authors' questions and probing.

Thank you to Neil Wilson for his technical research inputs that helped to provide a better understanding of issues in advance of discussions, and to Ciprian Bachu who orally translated two of the insurance television programs of the National Association of Insurance and Reinsurance Companies of Romania.

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Executive Summary

Romania is on the verge of a major economic shift as it moves towards accession to membership in the European Union, currently planned for January 2007. Even the process to get there has been positive for the country as inflation has moved to a more reasonable level, and GDP growth has been over 8%. This growth is yielding a rapidly growing middle-income group with the potential for many more to grow economically within this environment. It seems the focus of everyone from government to private sector companies is on accession and the opportunities that it will bring.

This move towards EU membership has been positive for the insurance industry in Romania. In recent years, premium growth for non-life and life products has grown by 50% and 30% per year, respectively. As the economy grows, people are buying new cars, fixing their homes, and spending on other consumer goods that more frequently benefit from insurance. At the same time, household credit has grown by an average of 95% per year (1999-2004).

This paper has been developed as a pre-feasibility study to assess the potential for financial interventions by KfW to jump-start and rapidly expand microinsurance in Romania. To assess the potential, the research team carried out parallel research into both the likely demand from the low-income market for microinsurance as a risk management strategy, and the capacity and interest of the supply side (insurers, brokers, regulators, and intermediaries). The results of this research are presented here.

The policy environment in Romania has been aggressively shifting towards conformity with EU policies, especially in the financial sector. This aggressive shift in insurance legislation is likely to lead to significant consolidation with the insurance industry with its 42 insurance companies (at 31 December 2004). Many of these will not be able to manage the increased capital requirements and will merge with others. There is a strong insurance broker sector (with 266 brokers at 31 December 2004). Even with dramatic growth rates and so many players in the market, insurance density and penetration are still minimal at USD 70 per person per year, and 1.53% of GDP, respectively. These rates are among the lowest in all of Europe. (The averages for Europe are USD 1,514 and 7.78% respectively).

Risk management options are limited for the poor. The only significant microinsurance program accessible to low-income households is that offered through the Creditcoop Casa Centralã, which has not been successful because of product design and servicing issues. Management is looking for a better product for its members.

Qualitative and quantitative research, coupled with the application of the access frontier methodology that has been used for the other pre-feasibility studies in this series, shows significant demand, given appropriate product design, procedures, premiums, and market education. In Romania, unlike most other countries, the low-income households represented in the study did not start from positions of unfavourable attitudes towards insurance. This will facilitate market education and subsequently microinsurance purchase.

Some insurers expressed significant interest in accessing the low-income market, but have held back because of information and capacity gaps. There are no good microinsurance models in Romania yet, and thus there is no effective demonstration effect to pull insurers into this market. Several insurers have made tentative efforts to develop microinsurance strategies, but these efforts have not significantly advanced.

Some domestic brokers too have shown interest in this market and have looked at ways to access it. These efforts too have fallen behind in the midst of information and capacity gaps and growing core business.

Lack of information and guidance with the low-income market are holding back the potential entry of insurers. The effort of this pre-feasibility study was to identify, if any, opportunities for significant investment or long-term financing for KfW. The pre-feasibility study has shown that the raw materials for microinsurance introduction and expansion are present already and that there is no significant need for such financing. The need is to bring together the supply side and the demand side of the microinsurance equation through assistance in generating knowledge, developing products and delivery channels, and generally guiding the process until there are a few successful microinsurance products on offer.

To facilitate the development of microinsurance, KfW should consider a Public-Private Partnership (PPP). In this way, private insurers who will benefit financially from the introduction of quality microinsurance products will make a significant contribution towards that objective. Such an investment would be unlikely if it were not for the public aspect of the partnership. Such a PPP has the potential to move microinsurance to a much higher level of low-income household access.

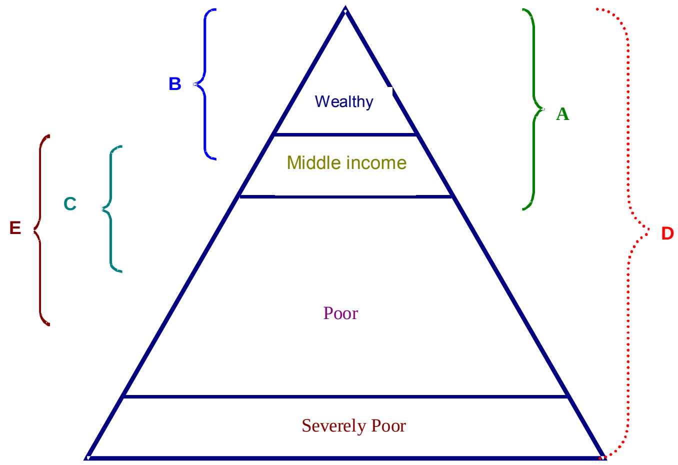
In Romania, there are interested insurers and brokers, there is significant demand, and there is strong potential for microinsurance. The key to releasing that potential will be the guidance that insurers get to bridge their knowledge and capacity gaps.

1. Microinsurance[3]

1.1. Where does microinsurance fit within the insurance sector?

In Romania, a wide range of insurance products and insurers are available to the upper and middle-income markets. Romanian insurers offer a wide selection of products and sell insurance out of offices in most towns throughout the country.

Formal sector insurance companies generally focus on the area identified as “A”, in the diagram below. In this realm they are selling voluntary products such as life insurances as well as obligatory products required by law such as motor third party liability, and those required by banks such as property loss and credit life. Within the “poor” group, insurers in Romania have not yet developed specialised products for that market. The insurance market in general remains young. However, it is rapidly growing along with the economy in general as Romania moves towards accession to European Union membership in 2007. Insurers such as AVIVA are interested in expanding their market beyond the “A” segment into that which includes the market range identified as “E”.



Most of the non-auto related current products are being sold within the area marked “B”. Corporate customers and mid to high middle income to wealthy individuals are purchasing general insurance products especially property and liability insurance which total almost 80% of the total insurance market). The “wealthy” and “middle income” tiers are not saturated in Romania and at the same time the middle income group is expanding as people reap the benefits of an expanding economy. The insurance sector in Romania is robust and growing.

The aggregate market for microfinance providers (MFPs)[4] is generally in the area identified as “C”. The range is somewhat limited on the bottom end because there are very few products for agriculture lending. On the upper end, activities reach almost to the top of the middle-income group given their relatively large maximum loan values. Some of them require borrowers to obtain insurance for property, or credit-life insurance as a means of protecting the institution’s interests. At this point, when insurance is required, MFPs are primarily sending their clients to insurance companies so the insurance is sold directly by the insurance companies. The MFP sector itself is mainly comprised of Credit Unions and cooperatives, while the commonly known MFIs (often non-profit NGOs) are extremely limited in Romania.

Area “D” indicates the range of products offered by the social security and public health insurance systems of the government. They include cover for pensions, disability benefits, primary health care, and medications. The weakness of this sector results in a dashed area indicator for the pyramid suggesting incompleteness.

The potential market for microinsurance is indicated as “E”. This area starts relatively higher on the poverty section of the pyramid than it would in other countries. This relates to the

[3] Microinsurance is the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. Low-income people can use microinsurance, where it is available, as one of several tools to manage risks.

[4] In this paper, MFPs are defined in the broadest sense and include any financial activities with the low-income market. The institutional structure might be as an NGO, a bank, a credit union, cooperative, or other type.

relatively large loans that are common in Romania for MFPs, as well as that of the typical membership structure of credit unions and cooperatives. The maximum loan value of many of these clearly relates to the lower to mid middle-income group. There are many institutions providing services within a close range of these MFPs including banks. The lower bounds of the microinsurance range are also beyond the typical level of MFPs. Accessing these will require new and innovative delivery channels.

1.1.1 What are some microinsurance products?

In general, there are several somewhat common microinsurance products to address the specific needs of low-income populations. These typically cover risks that are relatively costly and with limited and uncontrolled frequency. Such products would include various components of health insurance,[5] life (including attached long-term savings or investment products), disability, accident, property cover, policies covering livestock, and index products against too much, or too little, rainfall. Some international examples of these follow.

First, it is important to recognise that MFPs and banks can have strong tools of risk mitigation within their traditional product lines. To assist their clients with risk management, they should be offering emergency loans and specialised savings products (where legal). These could be the first line of defence for low-income clients of these companies.

In Bangladesh, Delta Life offers life microinsurance with an endowment policy to well over one million very low-income individuals throughout that country. These policies offer low value endowments accumulating USD 100 to 2000 after a policyholder selected term of fifteen or twenty years. The savings is tied to a life insurance product that completes the endowment upon death.

In Uganda, the American International Group (AIG) Uganda offers a group personal accident (GPA) policy through MFIs that has covered almost two million lives (nine percent of Uganda's population). This policy is linked to MFP loans and provides credit life, permanent and temporary disability, and accidental death benefits for clients, their spouses, and four children. Using MFPs as their delivery channel has allowed for rapid and efficient growth. Their success has further generated market competition in Uganda with at least two other insurers actively competing in the low-income market.

In Kenya, Africa Air Rescue (AAR) Health Services offers a comprehensive and an in-patient only health insurance product through one MFI currently. This product provides access to several AAR health care facilities, and a number of hospitals in their market area.

In Georgia, Constanta Foundation and Aldagi Insurance have teamed up to offer a health insurance product for Constanta's clients. Introduced in May 2004 the range of products initially performed beyond expectations, but has since been revised to improve processing and marketing. Unfortunately, major management and governance changes at Aldagi have led to a suspension of this product.

In India, property insurance is offered by VimoSEWA covering the homes of very low-income members. In addition, weather index "insurance" is offered by ICICI/Lombard in agricultural areas to protect against too little or too much rainfall in a way that virtually eliminates the moral hazard of traditional crop insurance.

In Colombia, La Equidad provides a life insurance product that covers not only the insured's funeral expenses, but also medical and educational costs for a deceased's children as well as a monthly grocery benefit for two years after the policyholder's death.

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[5] Please note the Glossary of Selected Insurance Terms in Appendix 8 of this paper.

The Working Group on Microinsurance has conducted an extensive series of case studies of microinsurance programs and organizations. Twenty-two of these have been published as of this writing and provide a detailed examination of these institutions and the lessons they have learned over time. These can be accessed at: www.microinsurancecentre.org. Lessons from these cases are being synthesized for publication of a forthcoming book on microinsurance good and bad practices.

1.1.2 How is microinsurance delivered?

Several models of microinsurance delivery are in use internationally. These models fall into the following groups:

- **Partnership (or "Partner-Agent") model**: Where an insurer is paired with a bank or MFP to offer effective and efficient microinsurance products. In this model, the insurer manages the insurance risk and the financial organisation acts as the agent for the product(s). Constanta Foundation in Georgia has used this model with Aldagi Insurance in the delivery of their range of health insurance products. In Romania, this approach is common with banks, but has not yet reached the low-income market.

- **Community-based model**: This model is prolific in numerous countries, especially in West Africa, usually focused on health financing. Organisations including the International Labour Organisation (ILO), through their Strategies and Tools against social Exclusion and Poverty (STEP) program, and the Centre for International Development and Research (CIDR) promote this model and work with communities to help them develop and administer a risk fund. In this model, community members are gathered to provide premiums into a central fund, negotiate with doctors, determine the "right" care mix to cover, set the premiums, and develop and manage the controls. The multiple responsibilities, limited capacity of local people, and limited support make these programs difficult to reach organisational sustainability. No examples of this model were identified in Romania.

- **Provider model**: Some hospitals and clinics develop and offer their own insurance schemes with community groups. These have been difficult to manage because insurance skills are limited among hospital administrators. Most of these programs are run through the books of the hospitals or clinics, and are unable to reasonably provide data on the sustainability of these schemes. No examples of this model were identified in Romania.

- **Full service model**: In some cases, regulated insurers are developing products that effectively help them move down-market without a marketing partner. Delta Life of Bangladesh has done this with its endowment life policies. In other cases, the MFI itself takes on the insurance risk. This holds several serious risks for an MFI. Insurers in Romania are interested in developing products to offer this market, but have not significantly entered the low-income market yet.

- **Social protection models**: In these models the government takes on the responsibility of insuring its citizens (or some portion of them) using "contributions" usually from the employed population. Romania offers extensive social protections and provides some health care and pensions in this manner. More information on the social security in Romania is provided in Section 3.4: Social Security System in Romania

The key consideration with these models is: Where does the risk lie? In some of these models, the insurance risk is left to be the responsibility of a party that is not likely capable of effective management. Any intervention in microinsurance should both ensure proper "placement" of the risk, and support the government's efforts at social protection. An insurer-based model can professionally respond to these issues.

1.2 How does microinsurance fit within the broad policy environment?

Throughout the business and government structures in Romania, the overriding incentive is for EU accession in 2007. All government efforts are focused on accession and this has included insurance policies, regulations, and supervision. Thus, at this point the effort is entirely on creating an insurance regulatory infrastructure that conforms to the EU requirements. Because of this, in Romania there has been little discussion of "microinsurance". However, in many developing countries the issues of regulation even for the larger market in general has significant problems that if addressed could assist in the provision of microinsurance. In Romania, the general policy environment is actively being addressed, and brought into uniformity with the European structures. This effort will minimize, if not eliminate, many of the developing country issues.

The process of EU accession touches nearly every aspect of government policy and procedures. Recently suggestions have been made suggesting that accession might be delayed for a year in order to ensure that key issues have been addressed in a serious and sustainable manner. Box 1 explains the current situation on accession.

Box 1: Romania and EU Accession

Romania signed an Accession Treaty with the EU on 25 August 2005 with the expectation of EU membership on 1 January 2007. All focus seems to be on preparing for membership, and the process has required extensive adjustments to almost every policy structure. Insurance is no different, and the insurance commission has been working to comply with EU regulations.

Significant speculation has suggested that accession may be delayed until 2008. Several key issues, though showing some progress towards satisfaction of EU requirements, still require improvement. These include:

- More vigorously addressing high-level corruption
- Judiciary improvements continuing at the current pace
- Completion of civil service reforms
- Allocating sufficient resources to the integration of the Roma minority

(From a speech to the European Parliament Foreign Affairs Committee in Strasbourg on 3 April 2006, by Olli Rehn, Member of the European Commission, responsible for Enlargement.) (Source: http://europa.eu.int/rapid/pressReleasesAction.do?reference=SPEECH/06/218&format=HTML&aged=0&language=EN&guiLanguage=en

In the case of Romania, and how microinsurance fits into its broader policy environment, the aphorism that *a rising tide lifts all boats* might be especially appropriate. Insurance companies, the regulations, and the supervision function, are all being addressed to ensure compliance with EU standards and this will make a stronger foundation for microinsurance.

The impact of EU accession on the insurance industry in particular should be dramatic. Some of the key expected results are outlined in Box 2 based on a presentation by Bram Boon of ING. Most notably the result of minimum capital requirement conformity will result in about half of the 2005 insurers merging with others or simply closing because they are not expected to be able to comply with the impending requirements.

In general, it is expected that the economy will dramatically improve and the impact of that – reduced interest rates, increased employment opportunities, more stable economy – will result in a broadening middle class and significantly greater demand for insurance in general. The expected continued broadening of the middle class creates an incentive for insurers to look below the middle class into the low-income markets as a developing ground for future middle-income policyholders. This will push insurers down-market with an expanding array of insurance products for low-income households. The transformed policy environment should accommodate this movement by insurance companies. The key issue for insurers will be how to develop and offer insurance products efficiently within the low-income market.

Box 2: Impact of EU accession on the Romanian insurance market:

- The potential for EU accession has required The Insurance Supervisory Commission (CSA) to transpose EU Insurance Directives into Romanian law
- The legal measure with highest impact is the increase of the minimum capital required. As a result, by the end of 2006, the insurance market will be reduced to 20-25 players
- Market concentration as a result of mergers and take-overs; no company with Romanian share capital will remain in the top ten
- Privatisation of health insurance and the development of private pension systems.
- Growth of bancassurance activity, reflecting the development of the banking sector
- The need for specialised financial analyse personnel will grow.
- Development of the current distribution channels and entry of new channels - e.g. individual offices of brokers and "financial supermarkets". Broker mediation is forecasted to reach 50% of the total insurance market by year 2010 from almost 20% in 2005
- The entrance of private pensions funds on the Romanian market will increase the sales of the life insurance products due to an enhanced level of market education
- Life insurance will benefit from the development of bancassurance partnerships due to a decrease in loan interest rates that allows higher accessibility to loans
- Life insurance will reach EUR 500 million by 2010 (from EUR 186 million in 2004). Life insurance share on the insurance market will increase from 22% to 30-35%
- A likely result of EU accession will be an increase in the middle class population. This will increase demand for life insurance products. Because of this, the number of persons having a life insurance will reach 3 million persons by 2010

	Total Insurance Market				General insurance market		Life Insurance Market	
Year	Gross written premiums (EUR mil)	Annual Growth	Insurance Penetration	Insurance Density (EUR)	Gross written premiums (EUR mil)	Annual Growth	Gross written premiums (EUR mil)	Annual Growth
2004	852	21%	1.50%	40	666	24%	186	12%
2005*	1,020	20%	1.70%	54	796	20%	224	20%
2006*	1,224	20%	1.90%	69	956	20%	268	20%
2007*	1,464	20%	2.10%	86	1,144	20%	320	20%

(* Forecast. Source: CSA, "Financial Market Magazine")
(Source: Bram Boon, ING Asigurari de Viata (file:///C:/Documents%20and%20Settings/Valued%20Customer/My%20Documents/All%20MJM%20Docs/MJM/Consulting/Insurance/KFW/Romania/Paper%20drafts/eu%2520Accession%2520Slides%5B1%5D.ppt#265,1,EU Accession An area of promise and opportunities for the Romanian financial industry and life insurance market in particular Bram Boon ING Asigurari de Viata))

The social security infrastructure in Romania is likely to be strengthened during the accession process, and at the same time will open opportunities for private insurers with products such as long-term pensions and endowments, as well as health insurance. These products will be beneficial to the self-employed and low-income households.

Long-term products would benefit from tax incentives that may come in 2007.

During the visit, discussions were held with a representative of the Regulatory Department of the Insurance Supervisory Commission. It was clear from these discussions that providing microinsurance products to the low-income market is an important consideration of the

Department, and that if there are issues that hinder or restrict professional microinsurance, that these would be addressed. An additional positive indication of the seriousness of this commitment is the participation of the Director General of the Regulatory Department in the Microinsurance Working Group of the International Association of Insurance Supervisors (IAIS).

2. The Insurance Sector in Romania

The insurance sector in Romania is still rather young. Partly due to the impending EU accession, much work has been done to accelerate the development of this industry, and dramatic growth is expected, likely in the area of about 20% per year (see Box 2) for the next few years. The 20% average growth rate, estimated by Boon seems conservative given the growth rates of Georgia and Albania at just 19.5% and 19.9%, respectively, annually during the period 1999 – 2004. The major growth factors present in Romania are absent from the other two. Given the likely rapid growth of the middle class in Romania it is likely that premium growth, especially but not exclusively, non-life products should be rather rapid as mortgage financing and the replacement of old vehicles for new intensify. Table 1 shows the dramatic growth in gross written premiums

Table 1: Insurance indicators (life and non-life, millions of USD)

	Gross Written Premiums						
	1H2005	1H2004	Nominal change (USD)	Real change (RON)	Premiums ceded to Reinsurers	Paid Claims	Claims Ratio
Total	787.5	599.7	31.3%	20.2%	165.4	282.9	45%
Top 10	636.2	481.5	32.1%	20.9%	133.6	244.8	49%

(Source: Insurance Profile 2005, Quarterly Insurance Journal. Media XPRIMM, 3/2005 (8))

Figure 2, below shows the insurance penetration (total premiums to GDP) in Romania in 2004 graphed against the EBRD's Financial Sector Reform Index[6]. Though making progress on the EBRD scale, which measures the progress of reforms towards an industrialized market economy, Romania remains behind Bulgaria, Poland, Hungary, and the Czech Republic. This is partly a result of state-owned institutions that are in the process of being sold, as well as elections that may have overshadowed efforts towards reform resulting in a slowing of progress towards reform.

The total insurance penetration for Romania is the lowest on Figure 2. Internationally they are number 71 of the 88 countries that Swiss Re tracks[7]. Their penetration is much less than Ukraine, however, as discussed in detail in the Ukraine paper, the numbers reported for Ukraine include a significant value of tax optimization "premiums". As shown in Box 2, significant improvement is expected in insurance penetration in Romania over the next several years.

[6] The transition indicators range from 1 to 4+, with 1 representing little or no change from a rigid centrally planned economy and 4+ representing the standards of an industrialized market economy. From: EBRD Transition Report 2005, Business in Transition.

[7] (Swiss Re: Sigma no. 2 / 2005)

Figure 2: Insurance penetration (total) to EBRD Financial Sector Reform Index

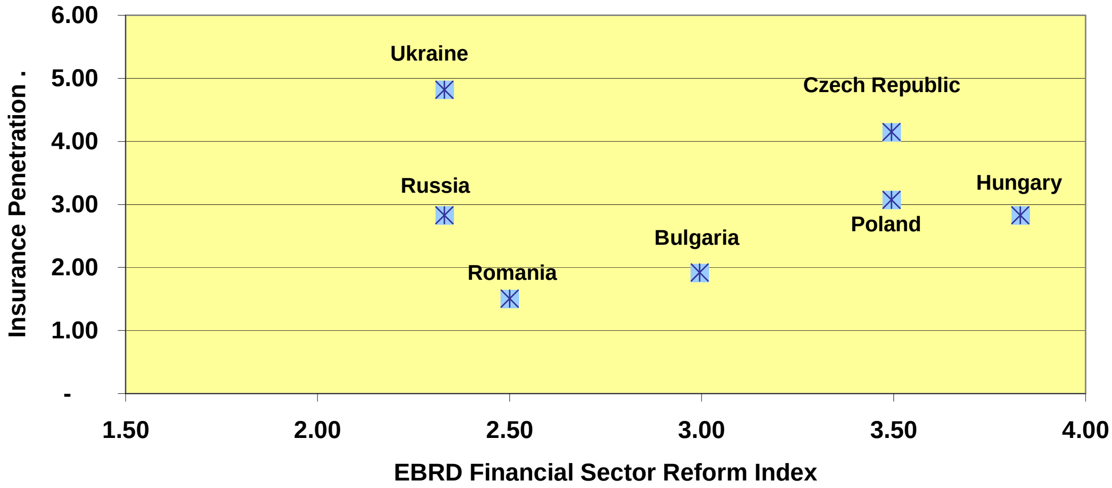


Figure 3 shows insurance penetration for life products. Life penetration seems to be a proxy for the level of effort and professionalism in selling insurance in a country since life insurance generally is sold more as a voluntary, individual product. Life insurance penetration is very low in Romania (number 65 of 88 on the Swiss Re penetration table). One factor that might actually improve the volume of life insurance sales in Romania is that many of the companies operate as composite insurance companies. By not requiring an additional license for a general insurance company to sell life insurance, this allows for limited selling to compliment general products.

Figure 3: Insurance penetration (life) to EBRD Financial Sector Reform Index

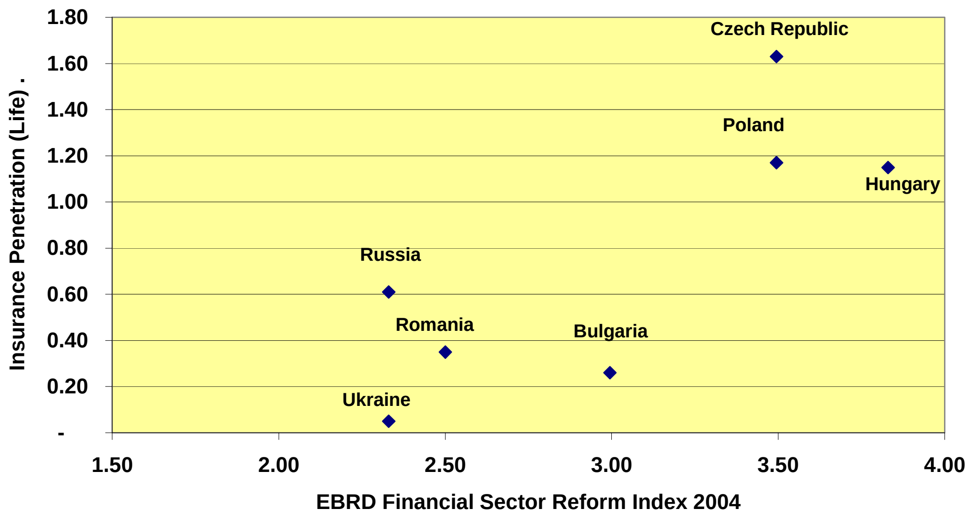


Figure 4 shows insurance penetration of non-life insurance products only. Here Romania is clearly at the bottom of list of the countries tallied for this figure (number 68 of the 88 countries that Swiss Re tracks). Weak non-life results relate to a limited economy with limited assets to insure. As the middle-class in Romania grows, and the industrial and business sectors expand, the value of non-life insurance premiums will expand.

Figure 4: Insurance penetration (non- life) to EBRD Financial Sector Reform Index

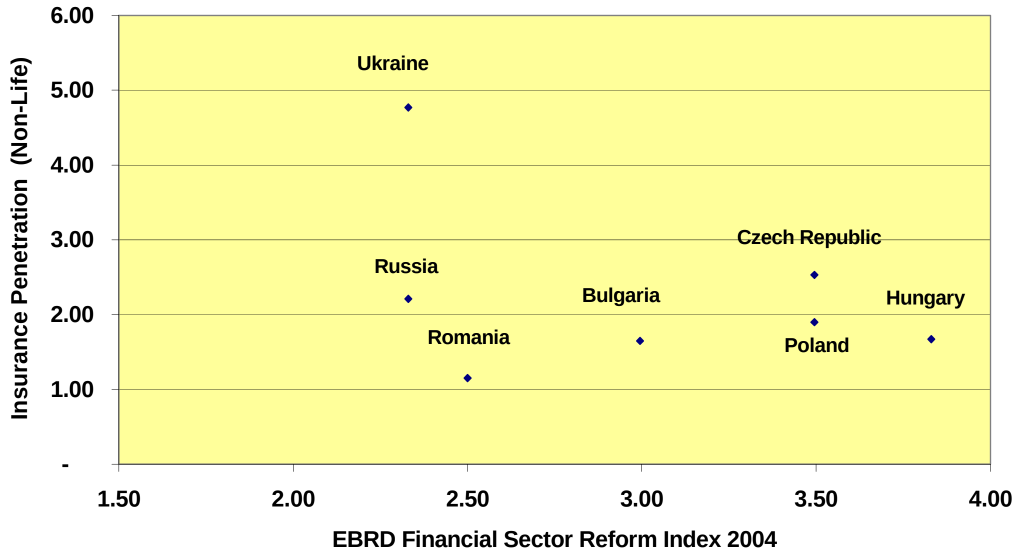


Table 2 shows that as of 31 December 2004 there were 42 authorized insurance companies receiving over USD 1 billion in premiums. Because insurers are able to conduct both life and non-life business, most of the larger institutions do sell both types. Over 80% of premiums went to insurers doing some composite business. The ability to offer life and non-life products is a benefit to microinsurance. An effort to get insurers involved in microinsurance often starts with life insurance because it is relatively easier to manage. From there it is good to move to more complex products that are frequently more valuable to low-income policyholders such as health or property insurance. In many countries though, the restriction to sell one type of the other makes this progression more difficult since separate insurers are required to sell the range of products. In Romania the structure is such that one insurer could offer a comprehensive package of microinsurance.

Table 2: Romania Insurance Related Companies (31 December 2004) (USD millions)

	Number	Premiums
Insurers Total	42	1,111
Non-life only insurance companies	20	175
Composite insurance companies – predominantly non-life	15	772
Life only insurance companies	4	36
Composite insurance companies – predominantly life	3	128
Insurance company employees	13,300	
Insurance agents	22,830	
Insurance Brokers	266	215
Insurance broker employees	2,570	
Insurance brokers' agents	1,580	
Reinsurers – Non-life	11	
Reinsurers - Life	13	

The adjustments to the minimum capital requirements for insurers in Romania will likely prompt the market consolidation that has been promoted by the President of the Insurance Supervisory Commission Council, Mr. Nicolae Crişan. Because of the combination of rising requirements and an active position on consolidation by the President of the ISC Council, it is unlikely that a new microinsurance company would be acceptable.

The initial capital requirements for insurance companies in Romania is being adjusted over a period from early 2005 through June 2006 in order to comply with EU policies. Insurance companies have six-month increments in which to increase their capital to the prescribed minimum. Table 2 outlines the evolution of the minimum capital requirements.

Table 3: Minimum Capital Requirements for Insurance Companies in Romania (EUR million)

Until	Non-Life except compulsory	Non-Life	Life
30-Jun-05	1.3	2.1	1.9
31-Dec-05	2.1	3.2	3.2
30-Jun-06	3.2	4.8	4.8

Out of the 44 insurance companies listed by the Quarterly Insurance Journal, Profile 2005 First Half[8], fifteen insurers, or about one-third, already comply with the EUR 4.8 million requirement at 14 September 2005. Another three comply at the EUR 3.2 million level, and still another three comply at the EUR 1.9 million level. It is possible that some insurers are offering non-life without compulsory insurance and thus would only need to comply at the EUR 1.3 million level. A total of 26 insurers have capital above EUR 1.3 million, and thus a minimum of 18 are non-compliant as at 14 September 2005. This discrepancy will lead to consolidations or less likely closures due to license withdrawal of the non-compliant insurers.

This consolidation may have a temporary retarding effect on microinsurance given the efforts required to integrate another institution into ones operations and system.

There were 266 insurance brokers as at 31 December 2004. These brokers mediated just over 19% of all insurance premiums in that year compared to just under 11% in 2003. This is a significant increase and shows the aggressive nature of the brokerage industry in Romania. These brokers are working to continue the trend of mediating more and more of the insurance premiums, possibly to as much as 50% by 2010 as suggested by Mr. Boon in Box 2. This provides an important opportunity for microinsurance because brokers, as the representative of the policyholder, could play an important role in expanding microinsurance, at least in terms of low-income household group expansion. Brokers aggressively vying for parts of an expanding market may prove effective partners for any effort to expand microinsurance.

2.1. The top ten insurers

The top ten non-life insurers, as shown in Table 3 are lead by Allianz-Tiriac, the largest of Romania's insurance companies. This group experienced gross premium growth of, on average, 50% per year for 2003 and 2004, a drop from the 85% growth of 2002. Even in the face of significant competition Allianz-Tiriac has managed to enhance its market share, while the rest trade limited market shares. Overall the top ten maintained about an 86% market share over the three years. Thus, even with only a 2% market share gain between 2003 and 2005, Allianz-Tiriac appears to be a market leader to approach in terms of microinsurance opportunities.

Table 4 provides information on the top ten life insurers. Here ING is the clear market leader with 40% of the life market in 2005. However, there is significant movement on the part of competitors like AIG Life, Omniasig Viata, Allianz-Tiriac, and others as this market begins to

[8] Published by MediaXPRIMM, Year III, Issue 3/2005 (8)

grow from a position of virtual non-existence. Working with insurers in this market may prove especially effective in terms of microinsurance given their efforts to simply define the life market.

Table 3: Romania: Top Ten Non-Life Insurance Companies (Ranked by 2004 market share)

(in millions of USD)

			2004				2003				2002		
Insurer	Formation	Type	Gross Premiums	Capital	Market Share %	Premium Growth %	Gross Premiums	Capital	Market Share %	Premium Growth %	Gross Premiums	Capital	Market Share %
Allianz-Tiriac		C	231	10	25.4	56.3	148	8	24.5	54.6	95	4	23.0
Asirom	1991	C	144	21	15.8	15.6	124	19	20.6	42.8	87	21	21.0
Omniasig	1995	N	101	8	11.1	59.3	63	7	10.5	24.7	51	6	12.2
Astra	1991	C	65	53	7.1	73.3	37	10	6.2	36.7	27	12	6.6
Ardaf	2001	C	59	6	6.5	88.8	31	5	5.2	41.5	22	6	5.3
Unita	1991	C	56	21	6.1	56.3	36	13	5.9	137.6	15	6	3.6
Asiban	1997	C	49	6	5.4	55.6	31	3	5.2	107.0	15	2	3.6
BCR		C	42	8	4.6	89.2	22	3	3.7	44.0	15	0	3.7
Generali	1831&1993	C	29	2	3.2	30.2	22	2	3.7	14.8	19	1	4.6
AIG Romania		N	22	1	2.4	42.6	15	1	2.5	95.9	8	2	1.9
Top Ten Totals			796	138	87.6	50.1	530	72	88.0	49.3	355	59	85.5
All Non-Life Insurers			908		100.0		602		100.0		415		100.0

(Type: C = Composite, N = Non-Life, L = Life)

Table 4: Romania: Top Ten Life Insurance Companies (Ranked by 2004 market share)

(in millions of USD)

			2004				2003				2002		
Insurer	Formation	Type	Gross Premiums	Capital	Market Share %	Premium Growth %	Gross Premiums	Capital	Market Share %	Premium Growth %	Gross Premiums	Capital	Market Share %
ING	1997	C	102	15	40.6	25.8	81	14	43.9	0.3	81	15	57.9
Asirom	1991	C	30	21	11.9	26.7	24	19	12.8	47.1	16	21	11.5
AIG Life		L	26	9	10.2	64.7	15	8	8.4	49.6	10	7	7.4
Omniasig Viata	1995	C	17	2	6.8	5.0	16	2	8.8	224.1	5	1	3.6
Allianz-Tiriac		C	13	10	5.2	149.0	5	8	2.8	167.9	2	4	1.4
Asiban	1997	C	13	6	5.0	10.0	11	3	6.2				
AVIVA		L	11	19	4.5	68.2	7	15	3.7	27.2	5	14	3.8
InterAmerican		C	7	6	2.7	16.9	6	5	3.2	92.2	3	6	2.2
Grawe		L	7	1	2.7	98.9	3	1	1.8				
BCR		C	6	8	2.6								
Unita	1991						4	13	2.0	10.2	3	6	2.4
Lukoil-Asito											5	1	3.3
Sara Merkur											3	1	1.9
Top Ten Totals			232	98	92.2	34.0	173	88	93.6	29.7	133	75	95.4
All Life Insurers			251		100.0		185		100.0		140		100.0

(Type: C = Composite, N = Non-Life, L = Life)

(Source for ROL-USD conversion: http://www.oanda.com/convert/classic for 12.31.2002, 2003, and 2004. Sourced 1 May 2006.)

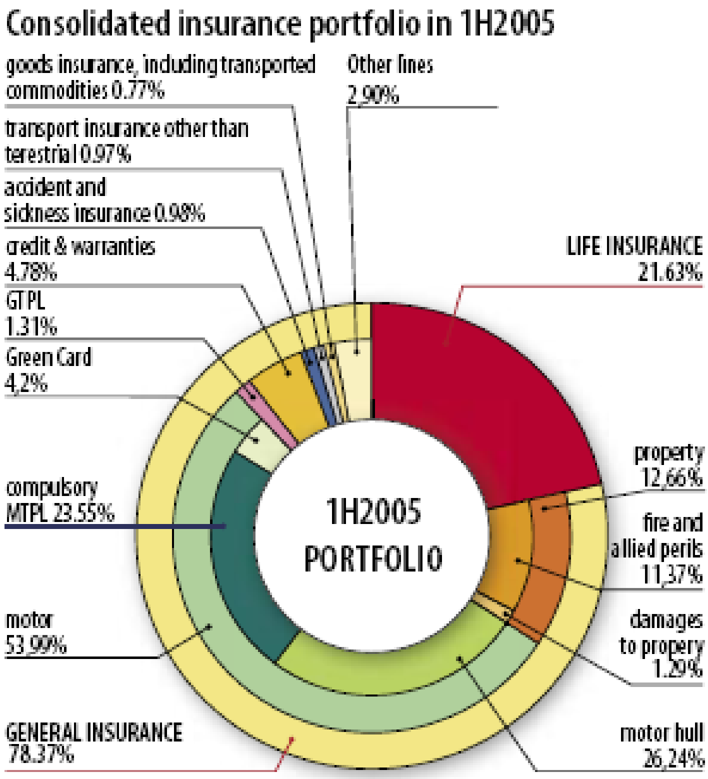
2002	1 ROL = USD	0.00002904
2003	1 ROL = USD	0.00002978
2004	1 ROL = USD	0.00003364

2.2. Insurance Product Structure

The Romanian insurance market is primarily a general insurance market with over 78% of all premiums paid in this category. The general insurance market itself is dominated by motor insurance (69% or 54% of total premiums). Nearly a quarter of all insurance premiums are for compulsory motor third party liability. Not even one in every hundred ROL is spent on commercial health insurance. In Germany, for example, commercial life, health, and general insurance premiums represented 46%, 17%, and 37% of total insurance premiums, respectively, with all motor premiums at 15% of the total.[9]

Figure 5[10] provides a visual representation of the structure of insurance premiums paid for various general types of insurance.

Figure 5: Insurance components by product



CHANGES IN MARKET PORTFOLIO STRUCTURE

INSURANCE LINES		1H2005 %	1H2004 %
Life insurance		21.63	19.80
General insurance		78.37	80.20
Of which	Motor insurance	53,99	55.05
	Property insurance	12.66	11.00
	GTPL	1.31	1.43
	Credit & warranties insurance	4.78	3.63

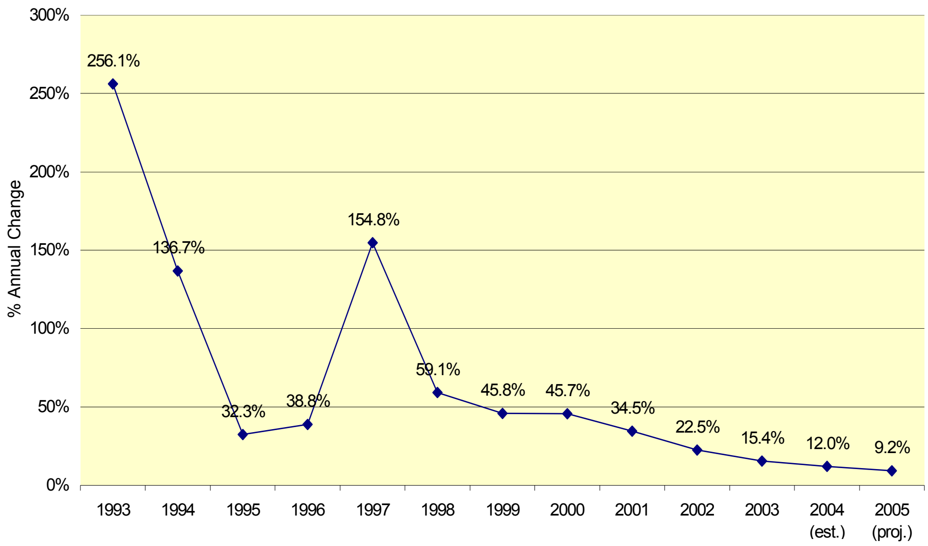
Limited but growing life insurance premiums are slow growing partly because of very limited efforts to create a life market. This is against a backdrop of recent severe inflation, which has a tendency to make people reluctant to participate in long-term risk management activities. It is just recently, indeed in 2005 (see figure 6), that inflation has fallen below 10% per year.

[9] GDV. Statistical Yearbook of German Insurance 2004. http://www.gdv.de/Downloads/English/GDV_StatYearb2004_Navig.pdf
[10] Media XPRIM. Quarterly Insurance Review, Insurance Profile, First Half 2005. Issue 3/2005 (8), p. 7.

Continued low and stable inflation will help people, especially low-income people, to overcome the reluctance towards life insurance.

There is much room for growth in the insurance market in Romania. Indeed this industry is still at the beginning of development. Expanding into the low-income market should help to continue the increasing trend towards growth in life insurance as well as general non-motor covers such as personal accident, health, and non-motor property.

Figure 6: Romania: Inflation (% annual consumer price level change)



(Source: *Transition Report 2005. Business in Transition*. EBRD, p. 50.)

2.3. Key events in the insurance industry

Romania has a long significant history of insurance. The first insurance was mutual insurance and is likely a form of early microinsurance. This history should provide a foundation for microinsurance market education. Having insurance in the national culture, even if historical, should improve the results of market education efforts.

The fact that the insurance supervision function is still so young also indicates a nascent insurance supply (even given the history). A listing of significant events in the history of the Romanian insurance industry is provided below in Table 5.

Table 5: Significant Events in the History of the Romanian Insurance Industry[11]

Year	**Event**
14th Century	Mutual insurance programs initiated
1744	The first “formal” insurance in Brasov, Casa de Incendiu, formed from the consolidation of two mutuals.
1848	General institute of Pensions was the first mutual insurer to offer annual pensions
1871	First Romanian insurance company, DACIA, founded by Royal law, the second “Romania” followed in 1873.
1923	Asigurarea Romaneasca started operations specializing in life insurance without requiring medical exams (the same as most current life microinsurance products).
1942	New insurance law reorganizing insurance activities
1948	Nationalization of insurance industry leading to the state owned monopolist ADAS

[11] Adapted from: UNSAR, The History of Insurance in Romania.

1990	Legislation led to the privatization of insurance companies, and began a new era of competitive insurance
1991	New law defines the activities of insurers, reinsurers, intermediaries; and another gave authority to the Supervisory Office of Insurance and Reinsurance.
1994	Inauguration of the National Association of insurance and Reinsurance Companies from Romania (UNSAR)
2000	Inclusion of "brokers" in the insurance law
	The independent, self-governing Insurance Supervisory Commission was formed to regulate, control, and supervise the insurance market. First members of the Commission were nominated in 2001.[12]

[12] The Insurance Supervisory Commission is lead by a five-person Board (one president and vice-president and three members). The members of the Insurance Supervisory Commission Board are appointed from a common list proposed by the Commissions for Budget, Finance, and Banking of the Senate and the Chamber of Deputies. They are nominated for: President - five years, Vice-president - four years, and members for between one and three years.

3. Risk management options for the poor[13]

When low-income people suffer from a risk event, a series of consequences, responses, and impacts follow. These are outlined in Figure 7. Low-income people need tools to help them manage the consequences of financial risks, otherwise they have the potential to lose all financial gains they might have made.

Figure 7: Risk impacts

Risk Event
Death, Illness, Property loss

→

Consequences of Shocks
Income loss
Asset loss
Need for lump sum of cash

→

Selected Responses
Draw on formal and informal group mechanisms
Use savings
Borrow from formal or informal sources
Sell assets
Default on loans

→

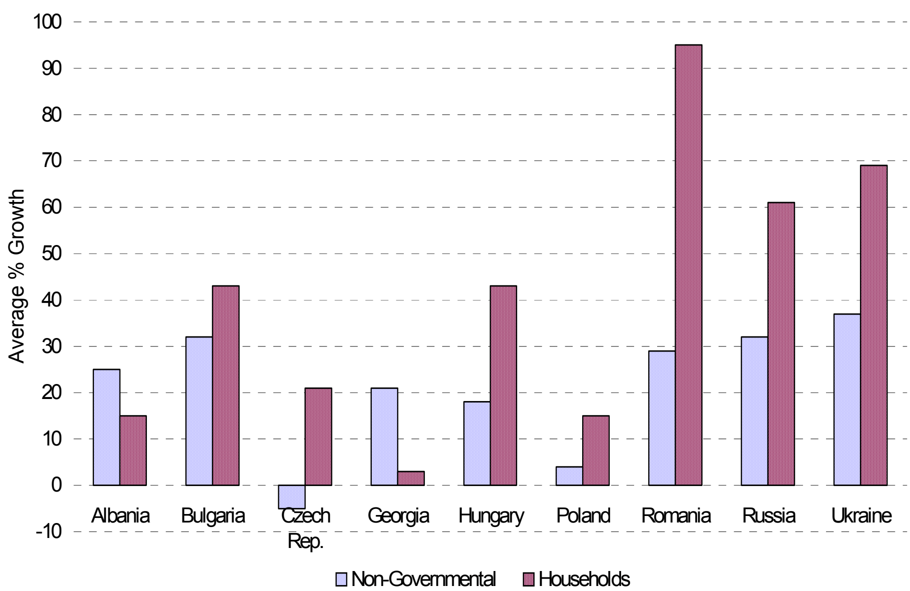
Secondary Shock Impacts
Reallocated household resources
Depleted assets and financial reserves
Indebtedness – claim on future income flow
Loss of income
Loss of access to financial markets
Untreated health problems

3.1. MFIs and banks

MFIs and banks provide limited risk management options for low-income people in Romania. MFIs are limited in scale and scope. The four largest MFIs - the Economic Development Centre (CDE), the Cooperative Housing Foundation (CHF), CAPA Finance, and Opportunity Microcredit Romania (OMRO) – combined only serve about 20,000 people. However, all have plans for continued significant growth of client volumes, as well as geographic expansion.

Several of the banks including predominantly ProCredit and Raiffeisen Banks have grown dramatically within the expanding middle-income groups. This market is the focus of these banks and others because of the huge potential they have for banking products. Indeed, in the real growth rate for credit in Romania has dramatically surpassed that of other regional countries. Figure 8[14], shows an annual average growth in household credit between 1999 and 2004 of nearly 100%. Only Russia and Ukraine even come close with 60% - 70% growth during that period.

Figure 8: Real Growth in Credit (annual averages, 1999-2004)



[13] "MicroInsurance Centre Briefing Note #6: Financial Risk Management Tools for the Poor." Monique Cohen and Michael J. McCord, January 2003.
[14] Source: *Transition Report 2005, Business in Transition*. EBRD, p. 40.

The dramatic increase in credit is likely to continue and lead to further increases in insurance product sales throughout the market. That said, the EBRD in their 2005 Transition Report reports that the Romanian banking system remains somewhat weak. Much national and donor effort has been, and continues to be, expended to improve these weaknesses.

3.2. Credit unions

In Romania, over 3400 registered credit unions operate throughout the country. Mutualism has been popular in Romania throughout the years with very early activity of mutual insurance as well as credit unions.

Table 6: Romania Credit Unions: Summary data (2003/4)

(in USD ,000)	**2004**	**2003**	**% Change**
Number of credit unions	3,455	3,895	-11.3%
Credit union members	1,363	1,526	-10.7%
Savings	259,434	165,293	57.0%
Loans	259,822	155,405	67.2%
Reserves	23,644	9,193	157.2%
Assets	306,590	179,110	71.2%

(Source: WOCCU (http://www.woccu.org/pubs/docs/2003_and_2004_Stat_Comparison.xls) (10 May 2006)

The legal environment for credit unions, however, is not particularly friendly. Box 1 provides January 2004 comments from the World Council of Credit Unions (WOCCU) regarding credit union legislation in Romania.

Box 1: WOCCU on credit union legislation in Romania

"During 2003, recent legislation governing credit unions in Romania was amended. Originally proposed and negotiated by UNCAR, the enacted legislation impedes the CARs from continued development toward becoming modern, member-owned financial institutions. The new legislation limits savings mobilization, destroying the most important pillar of sound and safe credit unions— the capacity to mobilize withdrawable savings. In addition, supervision of CARs has been mandated to UNCAR. Given this turn of events, WOCCU identified two key issues for the Romanian credit union system: (1) if CARs are restricted from mobilizing withdrawable savings, they can no longer be considered as credit unions; and (2) UNCAR, to date, has not shown willingness to commit to and enforce minimum safety and soundness standards, which in turn, affects the approach of credit union supervision." (From: WOCCU Statement on Romania. http://www.woccu.org/press/press_rel/pressr.php?pressr_id=559)

Subsequently, in 2005, seven credit unions started an association and WOCCU meetings with the banking commissioner have yielded commitments to improve credit union regulation.

3.3. Cooperatives

The CreditCoop Casa Centrale is the only registered cooperative bank in Romania. The CreditCoop operates through a network of sixteen agencies which link to 124 affiliated cooperatives, which further link countrywide to over seven hundred working cooperative offices. Management indicates that CreditCoop Casa Centrale has a combined 800,000 members. The law requires the use of agencies rather than branches and although cooperatives have a "juridical personality", they must be affiliated to a "casa centrale" or "central house". The Casa Centrale is required to assist the cooperatives under its umbrella and the CreditCoop has worked to improve capacity among the coops including developing and implementing information technology systems which management indicates are operational at each cooperative.

Among the products of CreditCoop include, time deposits, current accounts, regular savings, and credit to members and others. Their average loans are approximately EUR 500 though they lend as much as EUR 3,000. Clients are 65% rural.

The CreditCoop requires insurance on collateral for “large” purchases but send clients to obtain the cover on their own. They indicate a demand from clients for other types of insurance cover and offer that although the CreditCoop cannot obtain the authority to offer insurance itself, they are able to act as agents for an insurance company. The CreditCoop Vice President noted a strong interest in obtaining better credit related cover because of EU requirements that will render his loan portfolio as substandard due to the cooperative’s reliance on group collateral for loans rather than the required proof of income. He advocates that if the CreditCoop were to obtain default insurance, those loans would then revert to a standard position. However, in many ways, this is simply pushing the credit risk onto an insurer and such insurance is unlikely to be successful.

The CreditCoop has sold a basic health insurance product for Generale insurance. The manager noted that although the cover is offered in all cooperatives only about 20% of clients purchase the cover. It was noted that Generale has not made a significant effort to develop a product that fits with cooperative members, and they have done little to satisfy the requirements of this market. CreditCoop management notes that an insurance product for their market must be clear, focused, and simple to understand.

3.4. Social security system in Romania

Social security contributions are among the highest in the region and act as a disincentive for formalizing the grey economy.[15] Such a contribution burden has led to a significant number of social assistance programs aimed at aiding low-income households. Some of the most significant are detailed in this section.

Social Assistance Programs[16]

The **Minimum income Guaranteed** (**MIG) program**, enacted in 2002, replaced the Social Aid Program in effect from 1995 to 2001, which, due to its poor financing, design and implementation became ineffective. Eligibility for the MIG is determined by income and asset tests. The income threshold is a function of family income and size. The MIG benefit covers the gap between the program threshold and actual family income. For able-bodied family members, benefits are conditioned by a workfare requirement, an attempt to self-target program benefits to those in need. In 2002, the program covered almost 619,000 families, for a total cost of 0.28 percent of GDP. By the end of 2002, however, the number of families benefiting from MIG was about 380,000, or about 5.4 percent of the country’s population. Program beneficiaries are entitled to two other tied-benefits: health insurance and heating subsidies.

The Heating Subsidy program provides lump sum benefits for low-income families during the cold season (November to March). The size of the benefit depends on the aggregate income level of the family and the source/type of fuel used for heating (district heating, gas or woodcoal). For households not connected to the heating grid, benefits are paid as a lump sum or in monthly installments. For households connected to the heating grid, the benefits are deposited in escrow accounts from where they are accessed by the district heating suppliers. In 2002, almost 756,000 families (3,023,048 persons) benefited from this program, covering 13.5 percent of the country’s population, for a total cost of 0.1 percent of the GDP (included in the MIG budget). Initially, the heating subsidies were provided only for MIG beneficiaries. In January and September 2002, the government issued ordinances modifying the MIG law, and raised the heating subsidy eligibility threshold above the MIG threshold in an attempt to cover a larger share of the population.

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[15] EBRD – Transition Report 2005, Business in Transition. P. 166.

[16] *Source: World Bank (2003) Romania Poverty Assessment.*

By far the biggest share of the social assistance transfers are represented by the state child allowance and the supplementary allowance for families with more children. These benefits were granted to 4,835,606 children (state allowance) and 1,022,900 families (supplementary allowance), at a cost of 0.68 percent of GDP in 2002.

The State Child Allowance is a universal benefit, granted monthly for each child up to the age of 16 (18 if enrolled in the regular secondary education system), provided those over the age of seven attend school regularly. Since January 2003, the level of the benefit, which is indexed and adjusted regularly, has been set at ROL 210,000 (USD 7) per month.

At the same time, families with two or more children are entitled to a **Supplementary Child Benefit**. The level of the benefit was set in 1997 at ROL 40,000 (USD 1.30) per month for a family with two children, ROL 80,000 (USD 2.60) per month for a family with three children, and ROL 100,000 (3.23) per month for a family with four or more children. Benefits have not been indexed since 1997. The supplementary allowance was introduced in an attempt to improve the targeting of the program to the poor, knowing that families with more children face a higher risk of poverty.

Selected Social Insurance Programs

The public **pension system** is a classical pay-as-you-go scheme that, despite reforms introduced in 2001, continues to face a chronic deficit (close to 1% of the GDP). The deficit is the result of (i) population aging with a shrinking number of employees; and (ii) past early retirement policies. To maintain the fiscal balance of the system, the administrators opted for low replacement rates that are too small to protect many pensioners against poverty -- the ratio of the average public pension to the average wage is approximately 37%. Currently, the Government is implementing a three-year re-correlation plan to restore equity among the various cohorts of pensioners who retired with significantly different pension levels despite similar contributions.

The unemployment benefits provided by the unemployment insurance system were rationalized in 2002, when new legislation was enacted. The benefit level is set at 75% of the minimum gross wage and is granted for a period of 6 to 12 months, depending on the length of service. In addition, severance payments are granted for collectively dismissed workers, their level being linked to the previous average wage and the duration of their length of service. Beside the cash benefits, the unemployment fund finances a wide range of active labor market measures, including job counseling, public works and microcredit programs.

4. The Demand for Risk Management Services in Romania

4.1. What types of risks are good candidates for insurance and why?

"Not all risks are insurable. There are seven basic insurance principles that determine whether a loss is insurable:

1. The loss must occur by chance, and not be caused intentionally by the insured.
2. The loss must be definite, with reasonable confidence that the loss indeed occurred, and its loss must be measurable.
3. The probability of the loss occurring must be calculable as this is a key component in setting the premium.
4. There must be a large number of similar insured units exposed to the risk because of the law of large numbers which states that the larger the sample observed or studied, the more likely accurate the estimate or prediction.
5. The loss must not be catastrophic, creating losses for large numbers of insured at the same time as costs might be beyond the insurer's ability to honour claims. An insurer can avoid huge losses by means of reinsurance or the transfer or some or all risk to other insurers.
6. The policyholder must have an insurable interest in the event, and this event must cause a genuine loss to the policyholder. Ownership of property and family or financial ties of a beneficiary are two ways of establishing an insurable interest.
7. Premiums must be affordable.

These fundamental principles guide, on the most basic level, what can and cannot be normally insured. Thus, for example, a non-suicidal death can be insured, while school fees or marriages normally cannot."[17]

In terms of microinsurance, the practicality of selling and managing these products requires simplicity, innovative premium payment mechanisms, and the ability to implement effective controls against moral hazard, adverse (or anti-) selection, fraud, and overuse. Because of these, the available number of options for more complex products is proportional to the insurance specific management expertise available. For example, an MFI might be able to offer basic credit life insurance on its portfolio, but it would take an insurer with health care financing expertise to offer health insurance.

In terms of health insurance, an additional fundamental input is required - at least one provider of quality health care services. Without available quality services, insurance cannot reasonably be sold. The purpose of insurance is to help people manage risks. Sending them to poor quality facilities will have a negative impact on them through poor care, and will be more costly to the insurer due to additional costs related to the poor care. This is a limiting factor to growth (especially geographically). Generally, public hospitals are not seen as options for insurance because of several issues which include: quality of care, the need for un-receipted payments, limited confidence in financial arrangements with such hospitals, and difficulties in managing the necessary controls.

4.2. Risk exposure

Risk information was derived from extensive qualitative and quantitative research conducted throughout Romania. Details of the study methodology are provided in Appendix 3 and Appendix 4.

Exposure to health and property risks is slightly higher in Romania compared to Ukraine and Georgia (Figure 9). As many as 45% of households were affected by health risks that required hospitalization (17.2% of the total cases were for surgical treatment). Damage to property due

[17] The Working Group on Microinsurance. "Preliminary Donor Guidelines for Supporting Microinsurance". October 2003, pp 27-28. Accessible from www.microinsurancecentre.org.

to natural forces or human-made accidents happened to 6.1% of households. Exposure to agricultural risks were also at relatively high levels.[18]

Figure 9: Comparison of household exposure to different risks during last 3 years in Romania, Ukraine and Georgia.

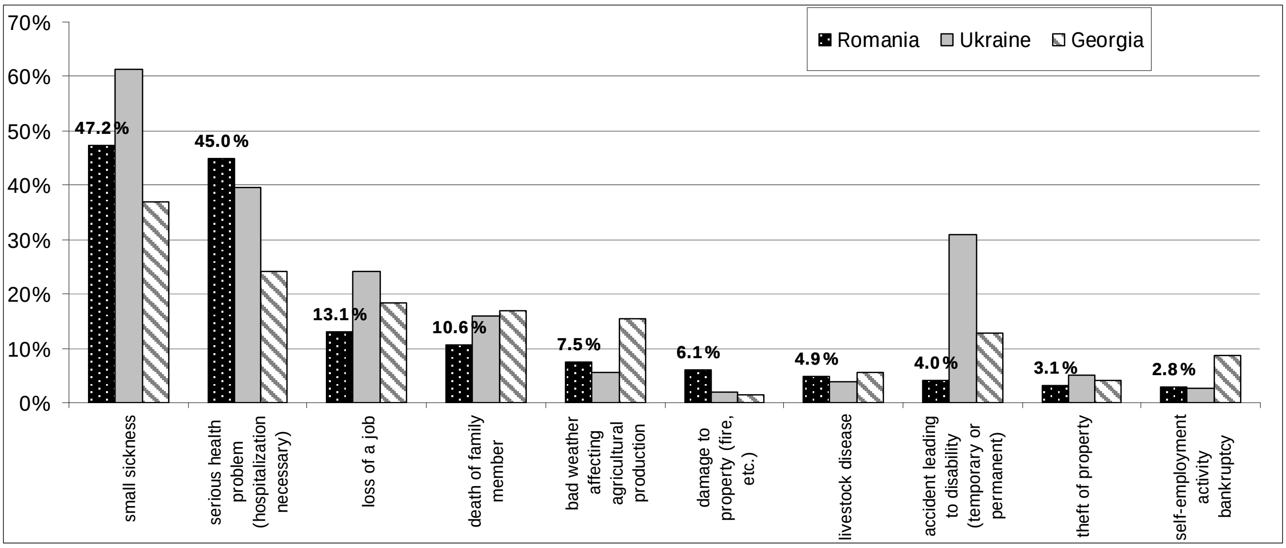
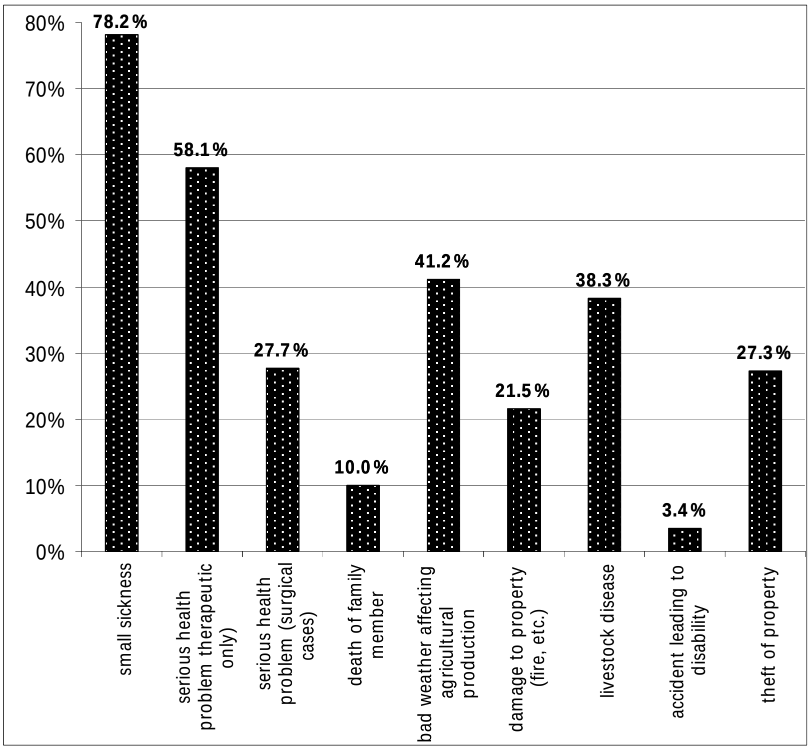


Figure 10: Frequency of risks. Percentage of occurrence of more than one risk of the same type for those households that were affected by the risk in the last 3 years.



Health, agricultural and property risks are the most frequent (Figure 10). For 58.1% households that were affected by a serious health problem (that required therapeutic treatment in the hospital) the health risks happened more than once in the last 3 years. For 41.2% of households this was the case with regard to agriculture risks.

Those who are more likely to be exposed to more risks live in smaller towns and more remote areas and are located in Centre, West and South regions. The risk exposure is slightly greater for larger households and among those having lower income.

4.3. Importance of risks

Risk severity reflects the impact of the risk when it happens. According to the quantitative survey, those households who were affected by risks evaluate that life and property (theft) risks had the biggest influence on

[18] Relatively low level of declared exposure to disability risks might be due to the fact discovered during the qualitative research that participants of the focus groups classified disability risks as health problems needed hospitalization. Additionally, they perceived disability risks as those which relate only to higher-risks professions (e.g. rescue workers, miners, etc.) This might have been the case also for quantitative research (even though the disability risks were put in the questionnaire before health risks to control for this issue). In reality the exposure to disability risks might be slightly higher that the quantitative research shows.

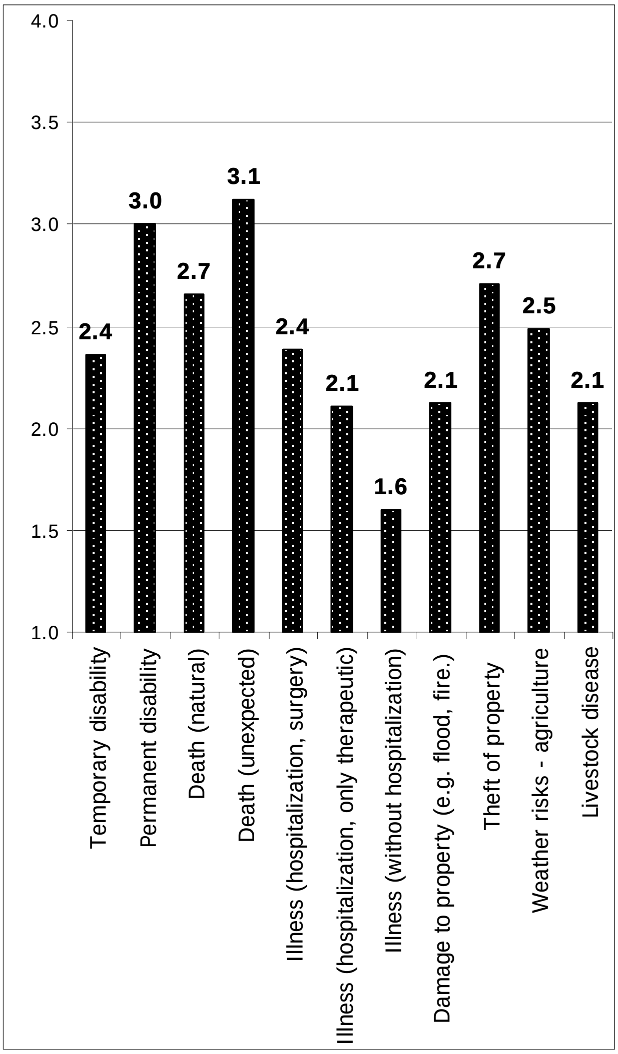
their households (Figure 11). Low-income households perceive the impact of the risks slightly higher for all the risks.

The importance of risks is a function of severity and frequency of risk occurrence (presented in Figure 9) as well as a level of difficulty to raise the necessary lump sum (access and effectiveness of coping mechanisms). This relates to the analysis of coping mechanisms presented below. Perception of the risk importance is also valuable from the marketing point of view. People will be willing to insure against the risks that they perceive important.

Qualitative research allowed the team to do a combined analysis of the perception of risk importance in low-income households.[19] It appeared that unexpected death of family member, unexpected serious illness, weather risks affecting agricultural production as well as damage to property due to natural forces are the most important risks in the eyes of low-income households (Figure 12).

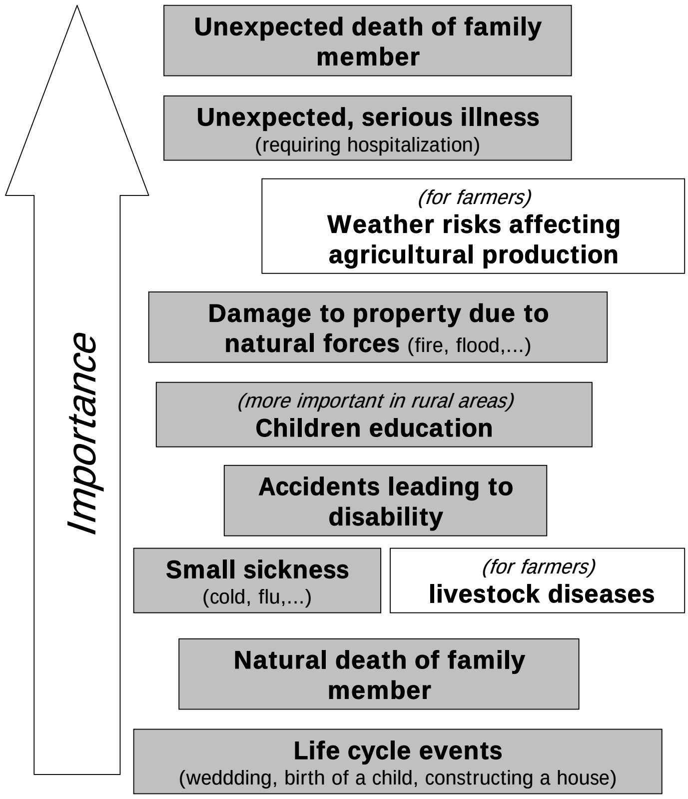
[19] During ranking exercise we focused more on understanding the importance of insurable risks. However, we have tried to discuss them within a bigger picture, including some structural and life cycle risks. This exercise helps to understand what is people's perception of the importance of insurable risks compared to other financial shocks and stresses they face in their lives. It helps to understand people's needs as well as market opportunities.

Figure 11: Severity of risks. Evaluation of the impact of the risks on household economic standard of living.



Means – scale: 1 (no influence) – 4 (decreased significantly)
Source: quantitative research

Figure 12: Perception of importance of risks for low-income population in Romania.



Source: qualitative research

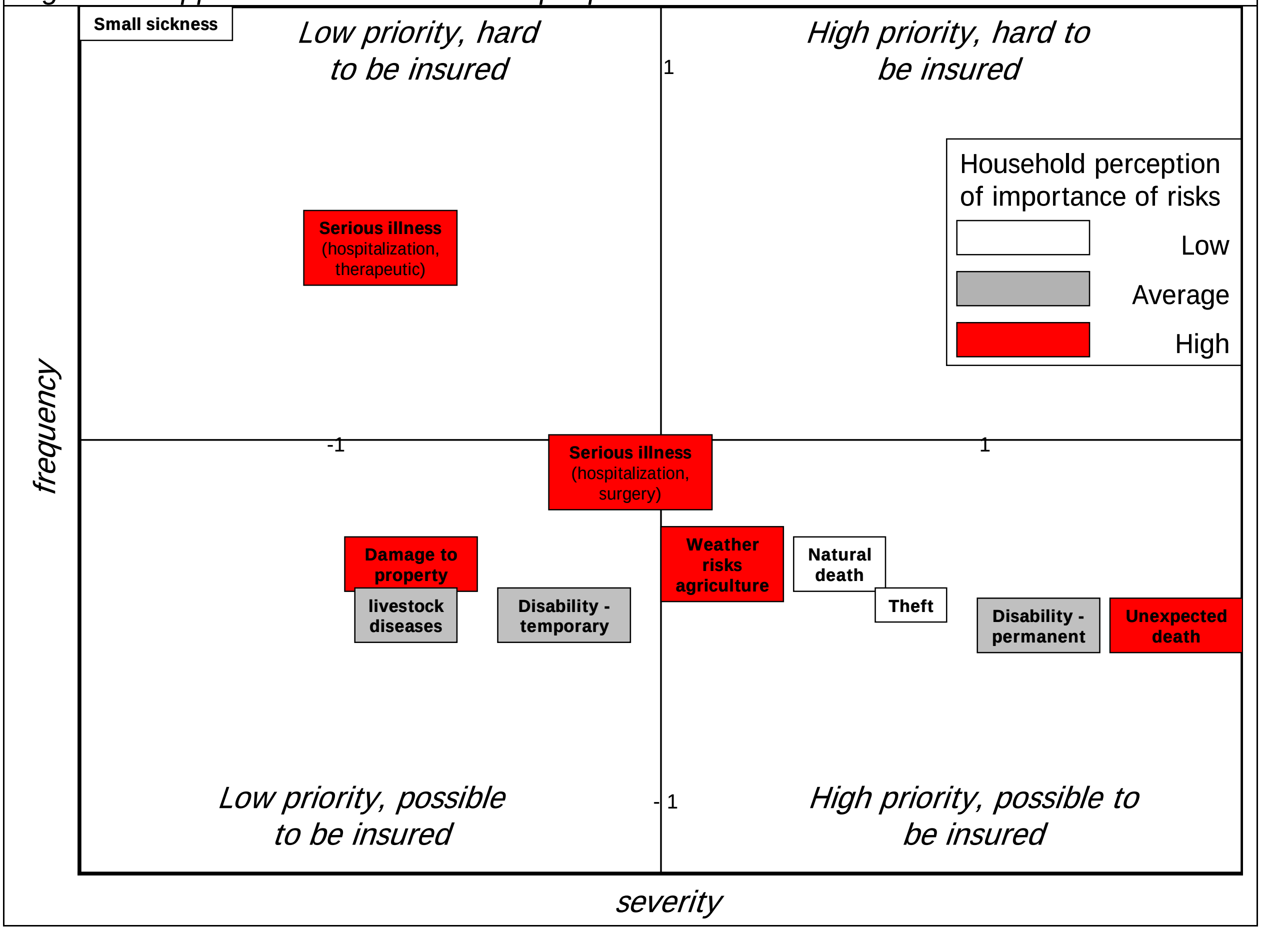
Unexpected death of a family member is perceived as the most important risk because nobody really tries to prepare for it and the relatively big amount of money is needed very urgently. The sum of money to cover funeral costs (coffin, ceremony, reception, etc.) is approximately USD 1300. Respondents were not really mentioning an income loss in case of the death of main breadwinner. Funeral costs are usually to be covered by the concerned family itself. Social security system provides a small funeral grant (up to USD 300). Help of relatives, friends, and neighbors is usually in kind (preparing dishes, bringing some food) but usually does not imply giving cash.

Unexpected, serious illnesses are perceived as important because of high informal costs that need to be paid for public, free health care services. *"You have to pay from gate keeper to the doctor".* Amounts provided ranged from 300 USD (bile surgery) to USD 5000 (for colon transplant). These costs include medical care and needed medicaments. Once more, health crises are usually sudden and the family cannot really count on external help.

More details on all the risks presented in Figure 12 are included in the Annex 3.

When analyzing the needs for microinsurance one needs to take into consideration the objective factors of frequency and severity of risks, as well as a subjective perception of households of the financial pressure related to specific risks. On the other hand, the nature of insurance concept needs to be taken into account – it is usually an insurance against severe, unpredictable losses as it is hard to insure against frequent, repetitive events. Figure 13 is an attempt to combine various dimensions and summarize win-win opportunities for both low-income households and insurers (those who are in the bottom-right part of the chart and are perceived as important by low-income households). These are: life/disability insurance (against death and permanent disability), crop insurance (against weather risks affecting agriculture production and health insurance (against serious health problems needing an emergency service and a surgery).

Figure 13: Opportunities for low-income people and insurers



4.4. Personal financial intermediation

Information on saving and borrowing behaviors provides an interesting insight into understanding of the menu of risk-management strategies used by low-income people.[20]

Romanians see benefits of planning and saving but at the same time are not so proactive in preparing for risks through saving as Ukrainians. Two-thirds of the Romanian population considers borrowing as the only tool to deal with emergencies (Figure 14).

[20] Understanding savings and borrowing behaviors also helps to understand the potential for microinsurance. On one hand, savings, debt, and insurance are competitive strategies for average losses. On the other hand, a positive attitude to savings and financial planning should ease marketing of microinsurance products as people will faster learn and accept the value of microinsurance.

Figure 14: Attitudes to financial planning, saving, borrowing and financial institutions

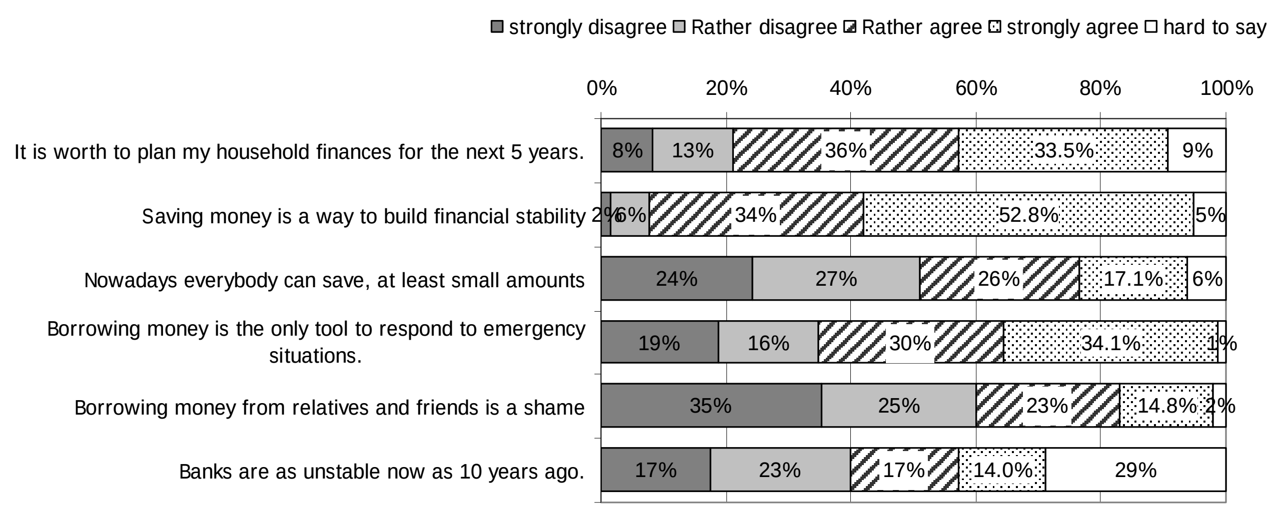
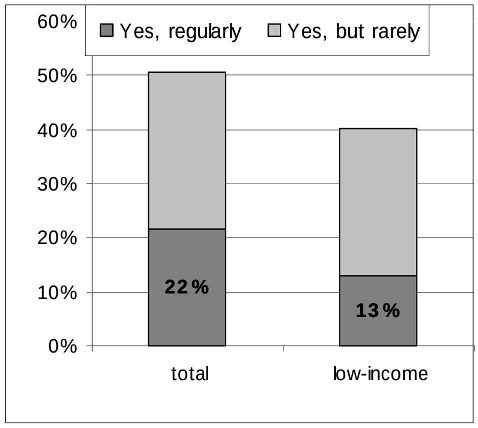


Figure 15: Savings behavior.



Half of households try to save at least small amounts but only 21.5% declare regular savings.[21] It is less likely to find low-income households who save (Figure 15).[22] Qualitative research provides evidence that saving in low-income household is done sporadically and with no specific purposes, while in better off households it is usually a more conscious process to attain specific future goals. During focus groups participants from the low-income households were enthusiastic about the idea of saving, mentioning many savings benefits. The most common were: quick response in case of emergency, no need to look for money elsewhere and explain everything to relatives. On the other hand they were very much sure that they could not save because of limited resources.

Average yearly savings for all households is EUR 350. Low-income households manage to save EUR 175 on average.

The majority of the population is still unbanked. Only about one third of all households report a member with a bank account. Only 22% of low-income households have one. Qualitative research revealed that one of the main reasons for not using banking services are memories of the turmoil in the banking sector during 1990s that was widely covered in the media.[23] Trust in financial institutions is still undermined.

More open attitudes towards borrowing have resulted in increased borrowing. 46% of Romanian households report having borrowed from any source in the last 3 years, and 34% are currently repaying loans. Borrowing is slightly less prevalent among low-income households due to reduced access to formal credit services (40% borrowed in the last 3 years and 27% are repaying now). Most of loans come from banks (30%), relatives/friends/rotating saving mechanisms (15%) and credit unions (13%). Only 1% mentioned using services of moneylenders or pawnshops. Low-income people tend to borrow less from banks (20%) and

[21] 66% declared saving in Ukraine; 13% in Georgia.

[22] Saving money is more prevalent among young and middle-aged people, singles, in the South and Bucharest, in bigger cities, among salaried workers.

[23] Other reasons mentioned by focus groups participants were: sums of money being too small to be placed in banks, commissions surpassing interest earned, limited withdrawal availability in case of emergency.

more from relatives (18%). This may result from limited sources of credit for the low-income market.

Risk of over-indebtedness seems to be quite high in Romania. Of those surveyed, 40% of households who are currently indebted have monthly repayments from the prior month exceeding 30% of their household monthly income. In other words, 14% of Romanian households seem to be not very cautious in managing their debts. There is no clear pattern in the profiles of the over-indebted households, other than the fact that it is less of an issue for those declaring regular savings. Income level does not differentiate the level of over indebtedness.

4.5. Gaps in risk-management strategies

Borrowing from a mix of sources (relatives, banks, credit unions) has been mentioned in all the focus groups as the most common strategy in use.

Qualitative research supports more reactive nature of Romanian low-income households (section 5.3). Ex-ante mechanisms to manage risks (i.e. insurance, savings) are rarely used due to a belief that these are tools for the rich only. Instead of preparing for risks, low-income households in Romania rely on borrowing from relatives and friends as the main source and complement it with formal credit from banks and credit unions. The recent boom for consumer credit eased access to formal credit to respond to emergencies.

In general, the range of those coping mechanisms that are timely and provide sufficient amount of money to manage emergencies is very limited. Those less stressful mechanisms (like savings, getting an extra job, borrowing from relatives) usually generate insufficient amounts of money. Therefore, they need to be complemented by higher stress coping mechanisms, like borrowing with interest, selling assets, etc. In reality, for the larger lump sum requirements people need to borrow from many sources at once and very often combine it with other coping mechanisms. This strategy is neither comfortable nor secure in the long term as it is hard to manage many obligations having scarce resources.

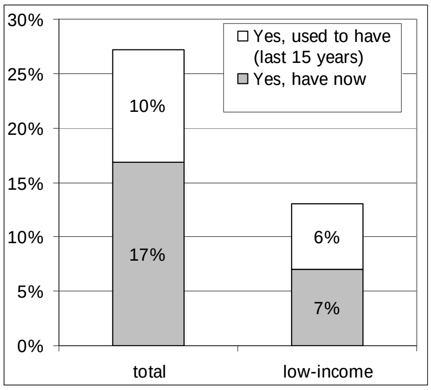
5. Insurance in the eyes of low-income households

Analysis of insurance usage and attitudes helps to understand opportunities and threats to the provision of microinsurance services. As few low-income households have used insurance, the usage and attitude analysis has been enriched by a test of four insurance concepts generally designed to respond to qualitative research results. This allowed respondents to become more familiar with the details of the main types of consumer insurance, and express their views and willingness to buy it.

5.1. Usage

Only usage of voluntary insurance services has been analyzed.[24] 17% of households have an insurance policy now. In total 27% have had some experience with insurance in the last 15 years.[25] Penetration is much lower for low-income market (Figure 16).

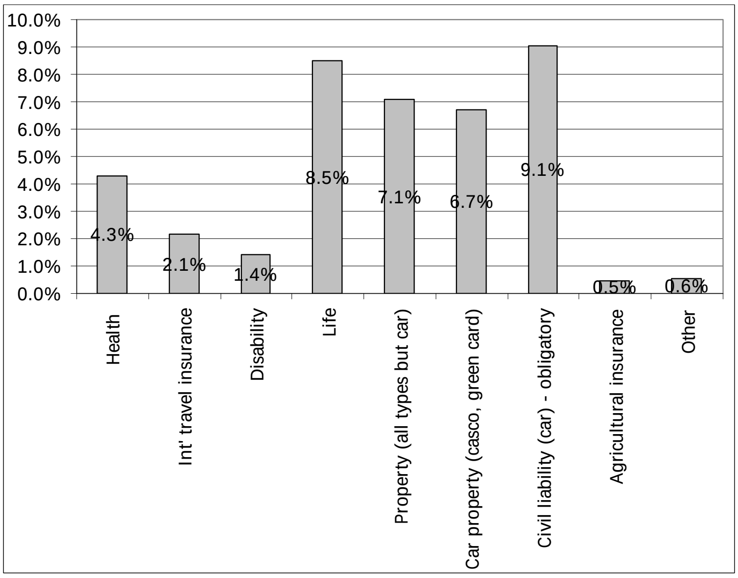
Figure 16: Usage of any type of insurance



Life and property insurance are currently the most common (Figure 17). There are no significant differences by income level apart for the lower popularity of life insurance among low-income households. In majority of cases respondents paid themselves for the policies.

Qualitative research provides an important distinction between those who initiated the process of obtaining insurance by themselves and those who got persuaded by an agent. The latter are more common in rural areas, where villagers are more likely to be persuaded. What is interesting, they rarely renew the policies unless they are approached again by an agent. Very often costs of going to insurance branch or looking for the agent discourage them to take again the initiative. This is an important lesson for microinsurance.

Figure 17: Type of policies possessed currently (of households).



The reasons for not using insurance are included in an attitude analysis in Section 5.3.

In general, users and non-users of insurance rarely mentioned negative experiences with insurance. This is significantly different from Ukraine and Georgia where most of the discussions referred to negative experiences with insurance companies.

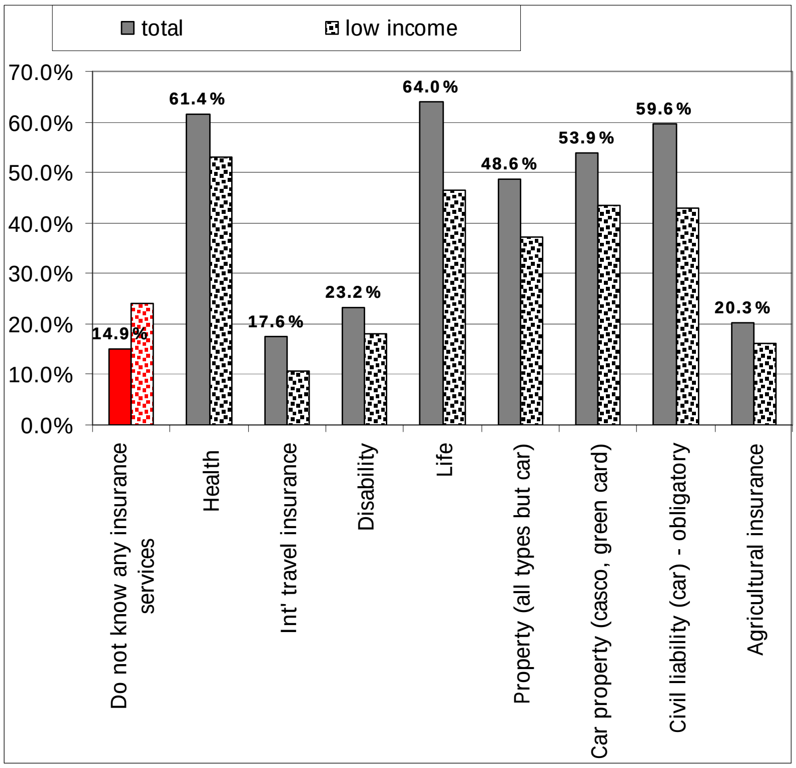
[24] Voluntary insurance products constitute most of the insurance market in Romania.
[25] It was only 7% in Georgia and 34% in Ukraine.

5.2. Knowledge

Despite low usage, awareness of insurance and its main types is high. 85% of respondents are able to mention spontaneously at least one type of insurance service This awareness is somewhat lower among low-income people (76%). The most recognized insurance product is life insurance (64%) (Figure 18).[26].

However, understanding of the insurance concept is limited among low-income people. In general most of the focus group participants have only pieces of information about the insurance concept (are aware that there is a benefit paid in case of claim, but do not know the terms and procedures in detail).

Figure 18: Knowledge of types of insurance.



Most of the information available to the respondents is acquired by 'word-of-mouth', both for urban and rural regions. Viewing their limited ability to objectively evaluate information, in the context of a lack of pro-activeness in acquiring some, the 'word-of-mouth' route is credited and the information is absorbed/ assimilated as their own judgment. However, even if word-of-mouth is the source for both urban and rural inhabitants, there are some differences in assessing the insurance:

- Objectively speaking, the urban inhabitants are more exposed to information and have easier access to it than those living in the rural area. Therefore, urban people are likely to access a more sophisticated evaluation process, for example besides acquaintances recommendations, search individually for information, even comparing alternative offers.
- The rural inhabitants are more likely to apply a basic judgment, based entirely on 'word of mouth' or even deciding to buy insurance on the intensive persuasion of the policy agent.[27]

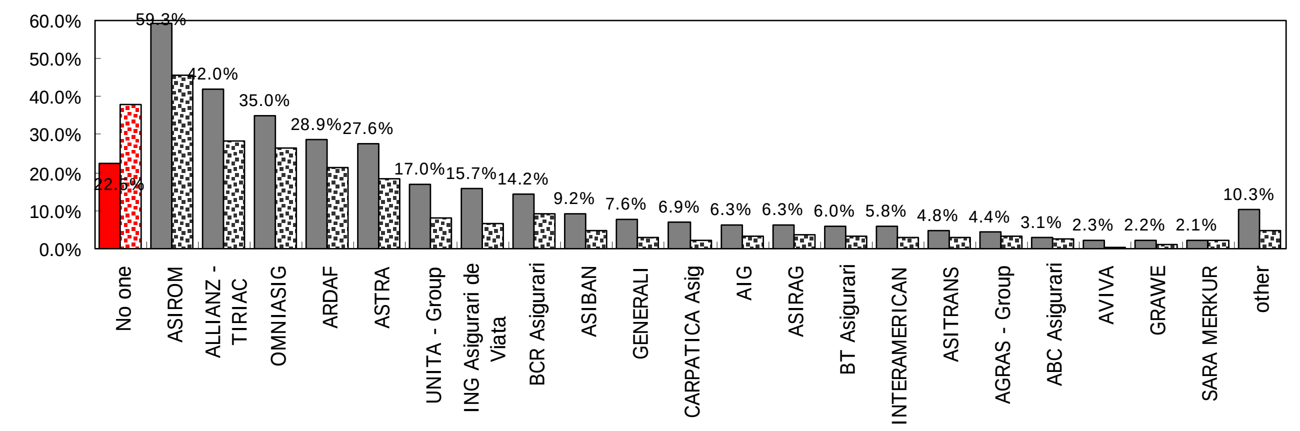
As most of the knowledge on insurance is based on 'word-of-mouth' the majority of low-income people participating in focus groups had some problems understanding the risk-pooling concept (the fact that they do not get their premium back when nothing happens). It is not something that people are obsessed with. However, it seems like it would be nice for them to get at least a part of their 'savings' (premiums) back.

As already noticed, low-income people use and know less about insurance. This is also the case for people older than 55 years old and those who live in small towns and rural areas. This gap between younger and older as well urban and rural is substantial.[28]

[26] In Georgia, it was 75% of the population; in Ukraine 95%.
[27] In one of the focus groups some of the persons investigated insured their houses based on the insurance agent persuasion, without even considering the identity of the insurance provider.
[28] This is based on the index composed from knowledge of types of insurance, knowledge of insurers and to-date usage of insurance, which are very closely correlated.

The level of knowledge of insurers is considerable. 77.5% of respondents were able to mention at least one name of insurance company operating in Romania. Brand awareness is higher compared to Ukraine and Georgia.[29] However, in the case of low-income population it is still limited to knowing 2-3 insurance companies. Additionally, there are more low-income people that do not know the name of any insurer (as many as 38%). There are no great differences in awareness of specific brands by income level (Figure 19).

Figure 19: Knowledge of the insurance companies.



5.3. Attitude towards insurance

An analysis of the reasons why people have not used insurance in the last 15 years provides useful insights to market attitudes towards insurance. Belief that the insurance is too expensive and limited information on insurance are the most important factors why people have not used insurance services in the past (Table 7).

Table 7: Main reasons for not using insurance in the past.	**Total %***	**Low-income %***
Insurance is too expensive for me	49.3	59
Do not have enough information	35.7	45.7
I do not know where to find insurance / nobody approached me	9.3	12.4
No trust in insurance companies – they can go bankrupt or steal money	6.7	3.5
I think nothing serious will happen to my family or me	5.3	0
We can manage problems ourselves	5.1	3.8
I do not have time to think about insurance.	4.6	1
No trust in insurer - heard that insurers do not pay	3.6	2.9
The insurance agents are too far from the place I live	3.3	2.9
Current terms and conditions do not suit me	2.0	0
Heard it is a long / bureaucratic process to realize claim	1.7	1
** Percentage of households who mentioned given reason. Responses do not total to 100%, as multiple responses were possible.*		

Among the low-income population, in both urban and rural locations, there is a stereotype of an insurance policyholder as a very rich person. Treating insurance as "for the rich only" has some rational roots, as traditional insurance services are too costly for the majority of low-income

[29] In Georgia, it was 56.4% of the population; in Ukraine 68.3%.

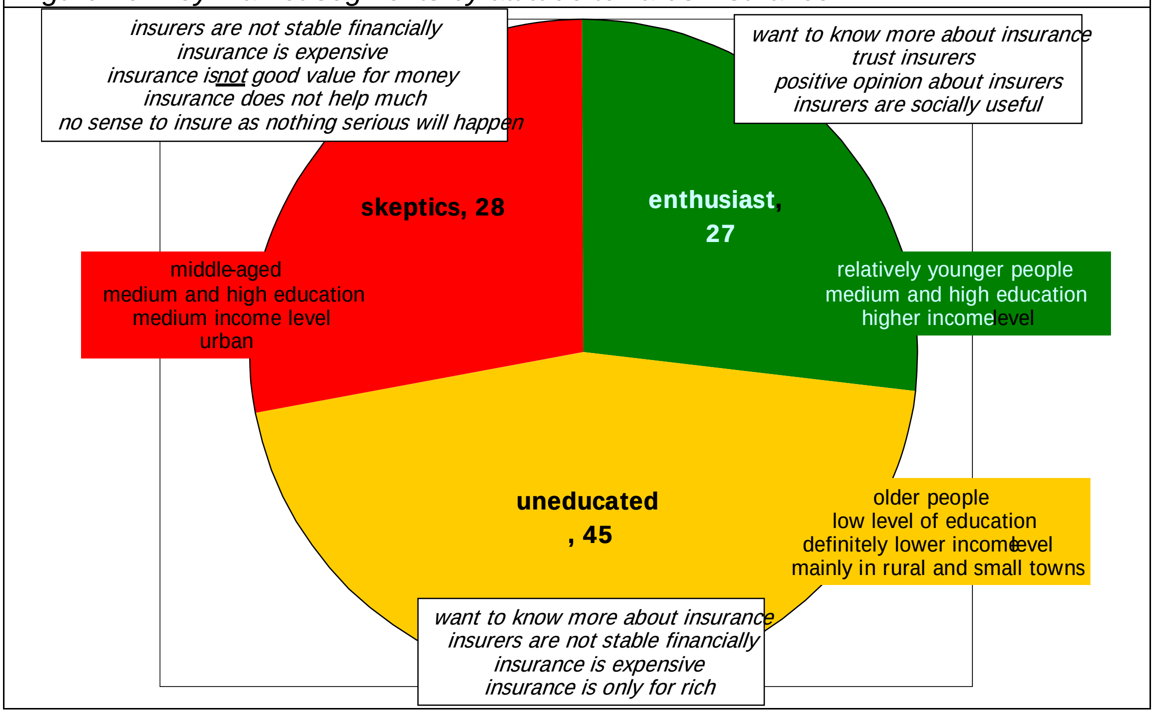
people. But on the other hand, this image is much overemphasized and is partly due to low financial literacy.

In general, limited knowledge does not reduce interest in insurance products significantly. This is evidently a barrier for buying the insurance (Figure 20) but it does not make people skeptical about the concept of insurance. This is further exemplified by the fact that most of the focus group respondents were able to identify easily key benefits of insurance services.

Trust does not seem to be a major issue, probably due to positive experiences of insurance users described above.[30] Only 38% disagree with the statement "I trust insurers".[31] It is in line with the focus group findings revealing no negative experiences among low-income population and only few concerns being raised regarding stability, honesty and transparency of insurers. What is more, low-income people do not differentiate in terms of trust between domestic and foreign insurance companies.

Statements included in Figure 20 summarize general attitude towards insurance. Based on these statements it is possible to segment Romanian population into three distinct clusters with regard to their attitude towards insurance: enthusiast, skeptics and uneducated.[32] These segments are useful in terms of thinking about tapping Romanian insurance market. 'Enthusiasts' are the easiest group to reach as they cannot imagine living without insurance and have positive opinion on the insurance sector. It might be difficult to reach out to 'skeptics' as they reject the idea of insurance on general grounds and are cautious regarding the insurance companies. The biggest group on the market is formed by those classified as 'uneducated'. The stereotype that 'insurance is only for rich' is strongly internalized by members of this group. To a lesser extent than 'skeptics' they share some of the negative opinions about the insurers. But at the same time, the 'uneducated' have the lowest financial literacy levels and one can assume that most of their concerns can be neutralized through well-targeted education.

Figure 20: Key market segments by attitude towards insurance.



Low-income market is uneducated about insurance. Indeed 84% of the 'uneducated' segment is composed from the low-income households.

[30] This is a major difference between Ukraine (41.3% have not used the services due to lack of trust) and Georgia (36.2%).
[31] In Ukraine 79% disagreed with this statement.
[32] Extracted using cluster analysis on both statements from Figure 6.8 as well the statements about financial literacy (Figure 5.6).

5.4. Expectations towards insurance product attributes

For the purpose of analysis researchers presented four qualitative research based microinsurance products (see Appendix 4: Microinsurance Product Concepts Tested) to respondents in a level of detail allowing them to express their expectations towards specific attributes and declare if they are willing to buy. Intentionally, the products concepts were kept general to evaluate attitudes towards insurance in general rather than satisfaction from detailed product attributes.[33]

During qualitative research low-income respondents reacted positively to all the concepts presented. General comments regarding the types of insurance and their coverage were as follows:

- *Health* – this is very relevant given the poor public health system and increasing unofficial costs of the health care provided. Respondents positively evaluated the fact that unofficial costs are covered by the policy.
- *Disability* – in this form it is considered to be only for those involved in high-risk activities. Respondents considered it as another form of health insurance.
- *Life/life with investment plan* – there is a preference for life with investment plan due to limited understanding of the risk-pooling concept. Respondents see more value in life insurance when it is accompanied with savings. On the other hand, respondents were not very satisfied with two pillars of the life with investment plan scheme: regular savings and longer term. The monthly amount to be saved was considered too much and most of the respondents recommended to cut it by half. Additionally, low-income people still do not trust much within the financial sector and would be happy to be able to 'test' availability of their savings. Therefore, they were recommending shorter insurance terms (maximum 5 years). Finally, the life with investment plan concept generated most of the questions for clarification, which might be a sign that this is a concept that is harder to understand for low-income people.
- *Property* – there is a preference for housing rather than asset insurance. Therefore, coverage options against damage to house/apartment should be highly valued in Romania.

Apart from coverage, the most important attributes were price, frequency of premium payment and proximity. Some general observations regarding low-income household expectations towards specific attributes are as follows:

- *Price (premium)* – is what people consider as the most important aspect and they were positively surprised by how low the concepts have been priced. In their opinion these terms are advantageous and should attract low-income people.
- *Frequency of payment* - The monthly payment is preferred to trimester, while up-front is not an alternative for any of the respondents. The reasoning for this is that they do not have enough disposable income to pay upfront, in the context in which they would be tempted to insure other relatives as well: parents, husband, children.
- *Proximity* - This aspect is important for the respondents located in other regions (either urban or rural) than Bucharest and district capitals. The reasoning lays in the large expenditures for traveling to the district capital to make the payments – respondents stated that the travel costs often surpass the monthly payment amount (between USD 2.70 and USD 3.40).
- *Term* – there is preference for shorter terms with a possibility of renewal as people do not believe the insurance company can stay in operation for many years in Romania.[34]
- *Benefit* – in general for all the product concepts the benefit levels were perceived satisfactory. The only issue regarding the benefit was the fact that premiums are not

[33] Simple satisfaction analysis proved that respondents liked main attributes of the products so that their comments related to general concept of insurance rather than to specific attributes.

[34] There is also a threat as people are not so much pro-active in taking their decisions on buying insurance, thus they very often do not renew policies if not approached by an agent.

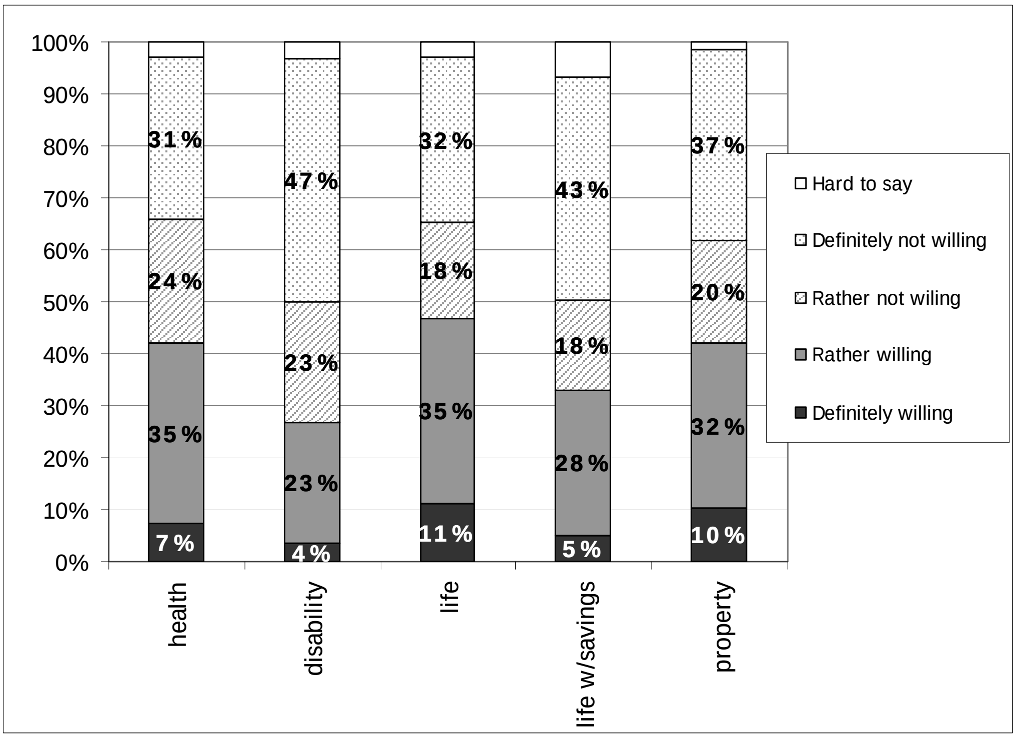
reimbursable when nothing happens. This stems from the issue of lack of understanding of the risk-pooling concept described above.

- *Claim processing* – for all the products respondents had a preference for shorter claim processing periods as typically they incur costs immediately.

5.5. Willingness to buy

As many as 64% of households are willing to buy at least one of the insurance concepts presented. As many as 46% of households declared willingness to buy the suggested life insurance product, whereas 42% showed interest in health and property product concepts (figure 21). There is lower interest in products among low-income people (health – 36%, disability – 23%, life – 34%, property – 22%). Declared interest in products is much higher than in Ukraine and Georgia.

Figure 21: Willingness to buy insurance products.



80% of those willing to buy, expressed their interest in more than one product. An analysis was conducted to determine if potential policyholders can afford to buy more than one product by adjusting their willingness to their capacities (Figure 22). Decrease in willingness to buy is the lowest for the product that responds to the most pressing needs - life insurance (declines by 29%) and the highest for disability insurance (45%).[35]

Those who are willing to buy insurance usually think about insuring more than one person (Table 8).

Figure 22: Willingness to buy versus capacity to buy

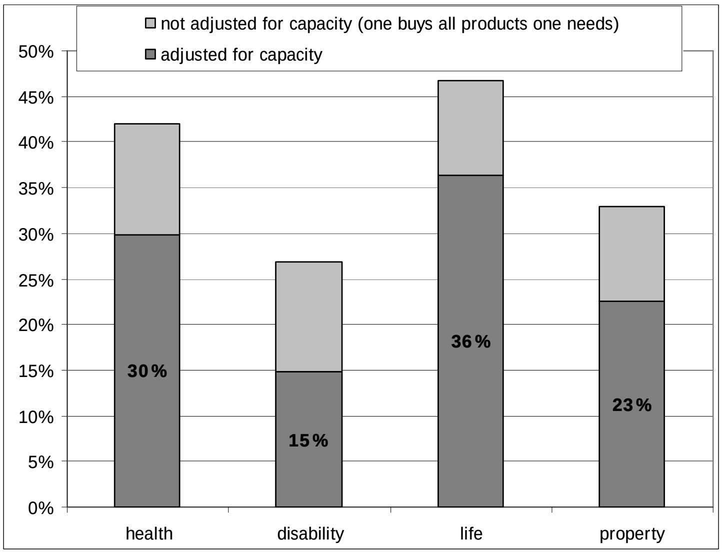
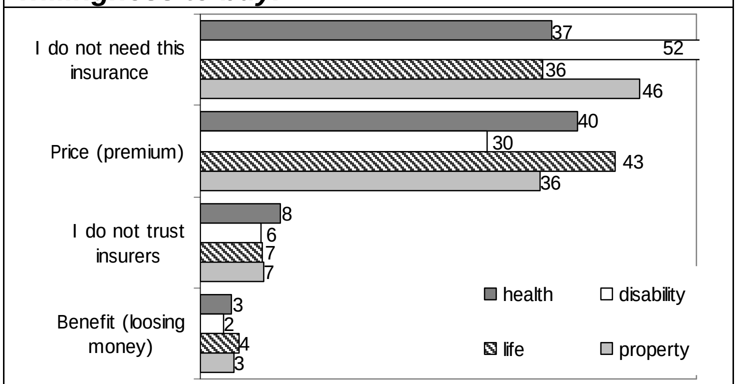


Table 8: Policies per household.

	Health (persons)	Disability (persons)	Life (persons)	Property (value of assets)
mean	*2.47*	*2.53*	*2.39*	*680,332,153 ROL*
1 person	21.8%	19.4%	22.4%	median = 300,000,000 ROL
2	31.4%	31.3%	31.9%	
3	25.4%	25.3%	23.8%	
4	12.7%	13.9%	11.4%	
5+	4.9%	4.8%	3.6%	

The most often cited reasons for rejection referred to lack of need for a given insurance and to the high price (Figure 23). Regarding life insurance with investment plan 25% off respondents rejected it because they did not like the saving option, 24% because of price, 18% because they did not need this type of insurance and 13% because the amount to be saved monthly was too high (which supports the qualitative results presented above).

Figure 23: Most important reason for lack of willingness to buy.



[35] This analysis is very important as in product concept test respondents were asked to analyze each product concept and their willingness to pay for it independently from other concepts. This means that there are people who declared their interest in 3 concepts but after the capacity analysis they have figured out that they can buy only one. That way, we asked the respondents to prioritize.

The market for microinsurance in Romania is price sensitive (Table 9).[36] Considering the incidence of price sensitive clients in total population, we can conclude that if the insurance premiums were decreased by 30% we would be able to add 7-13% of households to those willing to buy microinsurance depending on the product.[37] Interestingly, there is greater price sensitive among those having medium and high income, those younger, those living in big cities and towns and those being enthusiastic about insurance. These are the groups who are more market conscious, have more choices and are used to look for the best deals for them.

Table 9: Price sensitivity.

	Health		Disability		Life		Property	
	In total population	Among not willing	In total population	Among not willing	In total population	Among not willing	In total population	Among not willing
Sensitive (to 30% decrease in price)	13.1%	23.0%	12.6%	17.4%	9.8%	22.3%	6.8%	11.9%
Very sensitive (give their own price lower than 70% of suggested price)	1.2%		1.0%		0.5%		0.7%	
Total of all sensitive	*14.3%*	-	*13.5%*	-	*10.3%*	-	*7.5%*	-

Those low-income, living in rural and remote areas are also sensitive to distance. When respondents were asked if they would change their minds if the service is delivered door-to-door, an additional 8% of households declared their willingness to buy health insurance, 3% disability, 5% life, 5% life with investment plan, and 3% property.

[36] Two-step price sensitivity test was done. Firstly, those who were not willing to buy were asked if they changed their decisions when the premium would be decreased by 30%. Secondly, those who were still not interested were asked if they could pay any price for the product. Those who started hesitating at the first level was categorized as sensitive, and those who gave their own price (lower than 70% of original premium) were categorized as very sensitive.

[37] Qualitative research findings also supports sensitivity to price among target population. In 7 out of 10 groups people were ready to buy health insurance but for lower price. The monthly premium of ROL 20 for a full coverage seemed to be too high for them. Especially, when they were discovering that insuring the entire family of 4 would cost ROL 80, bearing in mind that it is almost one fifth of the average wage. The realistic price was set at ROL 10 per month per person.

6. Market Development Projections and Strategies

As hardly anyone uses insurance (and nobody has been using microinsurance) it is hard to project future microinsurance market development based on historical trends. The access frontier approach proposed by David Porteous (2005) is useful in projecting the market development for microinsurance.[38] The total market is divided in four segments as explained in Table 10. Given that access frontier methodology is difficult to apply to products that are not yet on the market, the projections are done using both general usage & attitude variables and willingness to buy based on the product concept test. This combination allows much more accurate projections for each of generic microinsurance products.

Table 10: Access frontier methodology and its application in this study.

Segment	*Description of the segment*	*How defined in our study*
Natural limit	**A group of households who is either not eligible for insurance schemes or they objectively do not need insurance.[39]**	**(health/disability): age above 65 (life): age below 18 and above 60 (health/disability/life): household head is disabled and/or suffers from serious illness (life): 1-member households (having no close family) (property): not possessing any new assets.[40]**
Supra-market	**A group of households who may wish to buy microinsurance but are unable to, mostly due to lack of surplus income.**	**1) Below household monthly income per capita at the level of EUR 30 (severe poverty line). 2) Willing to buy but cannot pay for all selected insurance concepts.**
Within access frontier in the future	**A group of households who are likely to access the suggested microinsurance product concepts if terms and conditions are more adapted to them. They are also reluctant to buy now due to limited knowledge, distrust, skepticism, dissatisfaction from some product features, etc.**	**The rest of the market.**
Within access frontier now	**The percentage of households who can and wish access to the suggested microinsurance product concepts on current terms and conditions.**	**Those who are willing to buy suggested microinsurance products and are enthusiastic about insurance in general[41].**

6.1. Market development projections

The access frontier approach identifies three zones on the market (Figure 24):

Market enablement zone – this is a group that can be reached now (***within access frontier now***) because it is easy to be covered with new microinsurance products that are demanded by enthusiastic consumers. In Romania it varies from 5% for disability insurance to 14% for property insurance and is much higher than in Georgia and Ukraine. It is due to more enthusiasm towards insurance and product concepts tested in Romania, which might be attributed to better understanding of benefits of market-based insurance mechanisms among general public.

[38] As explained by David Porteous (2005): "The access frontier approach enables greater understanding of market development over time from the perspective of who is, and who will be, served by the market over time. The access frontier defines the maximum proportion of the eligible population who use the product under existing conditions. This frontier is likely to shift over time. Considering where it will move in the short to medium term (to the future access frontier) is an important part of assessing the capacity of market solutions to extend access. There is still a group of people who, largely because of poverty, the market will be unable to touch in the foreseeable future ('the supra-market group'). For this group, the state may decide to supply the service directly or regulate existing institutions to provide it (i.e. forced cross subsidy). The access frontier approach distinguishes three zones in a market based on where usage and the current and future access frontiers are: a market enablement zone, a market development zone and a market redistribution zone. The test of policies in the redistribution zone is whether they encourage or limit the outward movement of the access frontier so that more can be served through markets over time, so that state subsidy can be directed at those most needy."

[39] On more mature markets this group also includes those who declare that they do not need insurance and will not buy it in a short-term. In the case of microinsurance in Romania it is hard to make a distinction if people declarations come from their low financial education and knowledge on insurance benefits or from their informed choice of not to buy insurance.

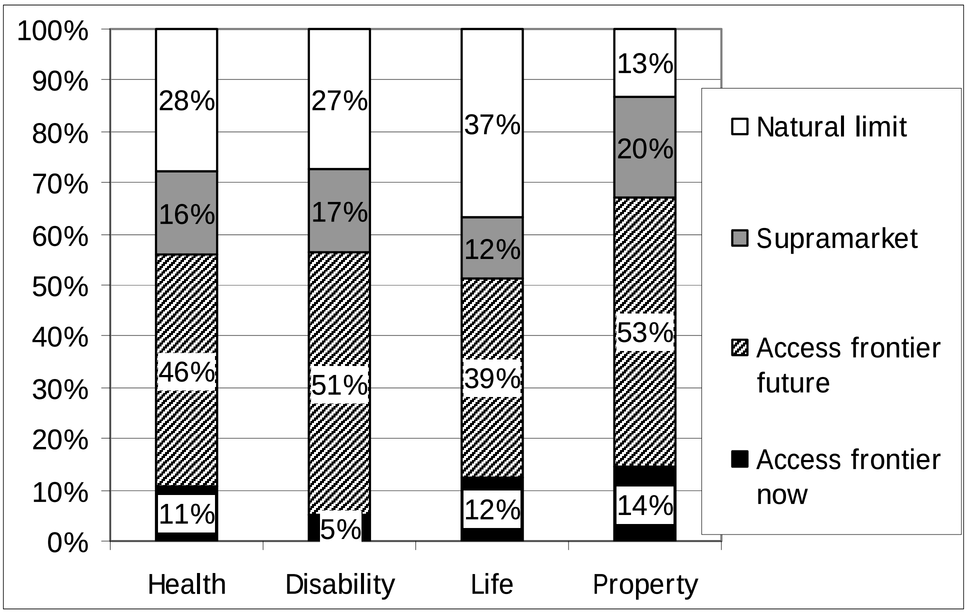
[40] Excluded (natural limit) are only those who does not have a new asset and reject the property insurance because of no need. Those who do not have assets but are willing to buy property insurance are not located in the natural limit group.

[41] Based on segmentation presented in section 6.3.

Market development zone – this is a group within the ***access frontier in the future*** that might be covered if the new products are well-adapted, effective marketing strategies are in place and there is enabling environment. In Romania (as elsewhere), this group is the largest, proving the immaturity of the insurance market. It varies from 39% for life insurance to 53% for property insurance.

Market redistribution zone – this is a group defined as ***supra-market***. This is a task for the government to extend an adequate safety net and provide affordable risk-management tools for this group. This group is substantial in Romania and varies from 12% for life insurance product to 20% for property insurance.

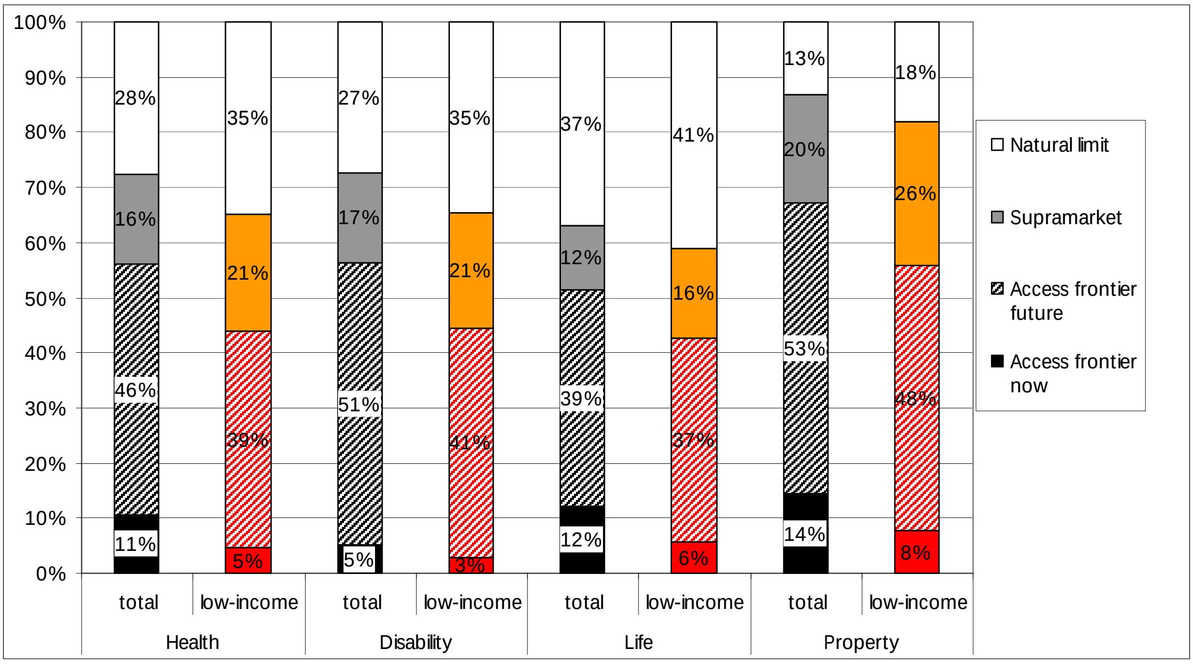
Figure 24: Market development projections for different microinsurance products (% of households).



If only the low-income market is considered, the market enablement and development zones are slightly smaller while both natural limit[42] and supra-market groups are larger (Figure 25). But still the market is sizeable. Combined market enablement and development zones give an idea how many low-income people are eligible and can afford private microinsurance services, and therefore can potentially benefit from better risk-management tools. The data shows that 44% of the low-income population can benefit from health and disability microinsurance, 43% from life insurance, and 56% from property insurance. This is a large group given that the total number of low-income households in Romania is 5.17 million.

[42] There is more likely to find a low-income person among elderly people.

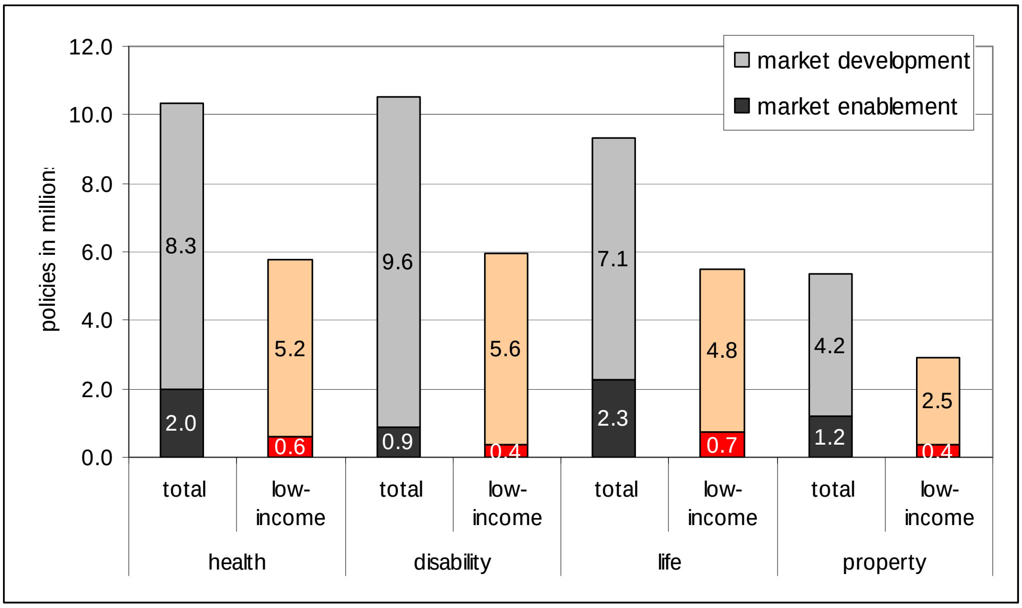
Figure 25: Market development projections for different microinsurance products (% of households) for total and low-income population.



In total, the market to be tapped (both enablement and development zones) is more than 10 million health and disability insurance policies, 9.4 million life insurance policies and 5.4 property insurance policies. Volume of the "easier-to-reach" market (market enablement zone) under current circumstances is approximately 2 million policies for health insurance product, 0.9 million policies for disability insurance, 2.3 million policies for life insurance, and 1.2 million property insurance policies[43].

As shown on Figure 26 microinsurance is an obvious business opportunity with the projected potential for 2.1 million policies in the market enablement zone, and another 18.1 million in the market development zone. There is significant potential for microinsurance in Romania.

Figure 26: Total and low-income market size projections.



[43] It is calculated taken into account number of households, % of households in the group - access frontier now, and average number of policies willing to buy. See Annex 7 for detailed calculations by region, settlement type and income level.

6.2. Strategies to tap the low-income market

This first-ever study on microinsurance in Romania provides a general overview of needs and opportunities. Therefore, only some general future directions can be envisaged with regard to tapping the low-income market in Romania. For this purpose it is useful to consider the segmentation of the Romanian population by attitude towards insurance (presented above). The three segments identified are distinct in terms of their knowledge of and attitudes towards insurance. These will determine outreach and marketing strategies to be used to deliver new risk-management tools to the low-income populations in Romania.

The socio-demographic structure of the market enablement zone (within the access frontier now) is very similar to the structure of those who are enthusiastic about the insurance concept. They reside in urban areas, are younger with higher education, and earn medium or high income. In the market enablement zone, there are only slightly more than 0.5 million policies to be demanded by low-income households. Thus, penetrating the low-income market through market enablement zone does not contribute much to equipping low-income households with new risk-management tools.[44]

It would be difficult to tap into the low-income market only by penetrating the market enablement zone. Most of low-income market will need to be developed. Figure 27 shows that in general the market development zone is composed mostly from those 'uneducated' and 'skeptics'. Penetrating the 'uneducated' segment would be the most promising strategy to tap the low-income market because most of low-income households are represented within this segment. Such a strategy will allow access to more than half of the low-income market in Romania.[45]

Figure 27: Structure of market development zone by attitude towards insurance.

Despite some challenges, the low-income market is relatively more accessible in Romania as general distrust in insurance sector in Romania is not as high as in Georgia and Ukraine. Apart

[44] Penetrating the low-income market enablement zone necessitates evidently development of new adapted microinsurance products. Concepts of these new products should be similar to those tested in this research and take into account the most important expectations towards products attributes discussed in Section 6.4. It should not be costly to market these products as this segment knows very well the benefits of insurance. Last but not least, in the case of market enablement zone it should not be difficult to find the low-cost delivery channels as most of 'enthusiasts' use banking services and is located in accessible places.

[45] The next step would be to encourage the low-income 'skeptics' that insurance makes sense, but this is much more difficult task.

from adapted new products there is an evident need for an insurance education component, including the uses and benefits of insurance to successfully market the products to the 'uneducated' segment. This education component should be very basic as the target group consists of individuals with low general education. Moreover, marketing strategies should address the most common stereotype that 'insurance is only for the rich'. In addition, low-cost delivery channels are crucial to bring the affordable services to the target group. It would probably be the biggest challenge as most of the 'uneducated' segment is located in rural areas and small towns and majority of them are unbanked.

Box 3: Marketing the insurance concept

The National Association of Insurance and Reinsurance Companies of Romania has developed with Romania TV 2 a series of thirty-minute television programs on insurance. These are shown once each month as part of a regular information television series produced by TV2. Each thirty-minute segment looks at one type of insurance (life, housing, property, health, for example) and explains how the product works and its benefits, in a "talking heads" style presentation. Clearly, this series is geared towards the middle and upper market, but the concept could be adapted for microinsurance.

6.3. Demand Conclusions

Despite unquestionable developments in recent years poverty is still high in Romania. Twenty-five percent of the population lives below the poverty line. Sixty-four percent can be classified as those who live on incomes that are not sufficient for normal functioning in a society. It affects mostly the rural areas and households with self-employed (including subsistence farming) and the unemployed, who have lower adaptive abilities, and benefit less from market changes. This is sharpened by strong regional disparities forming so-called poverty pockets throughout Romania.

The road out of poverty for low-income households in Romania is hard and unpredictable. Such crises like unexpected death of a family member, serious illnesses, weather risks affecting agricultural production as well as damage to property, put significant financial pressure on low-income households. It is due to relatively high costs associated with these risks and a limited range of adequate coping mechanisms available. Low-income households in Romania are not very proactive in managing risks, only 13% of them declare regular savings. They resort mostly to reactive borrowing from relatives/friends and formal financial institutions (banks and credit unions). The current risk-management strategies are potentially risky in terms of over-indebtedness. Even now, at least 14% of the population has debts beyond capacities.

Low-income households need to increase their risk-management capacities. Microinsurance is one of the options that might be considered. The products that should add a significant value in reducing vulnerability are: life/disability insurance (against death and permanent disability), and health insurance (against serious health problems needing an emergency service and a surgery). According to estimations based on the research for this project, out of 5.17 million low-income households in Romania approximately 45% can benefit from private micro-insurance services.[46] This is a considerable group that potentially could take advantage of market-based social risk-management mechanism.

Microinsurance should be an attractive venture for commercial insurers as the market is sizeable and relatively easy to reach due to a positive attitude towards insurance and insurers. Furthermore, distrust in insurance sector is negligible due to limited negative experience of those few using insurance services in Romania. Lack of trust and strong negative feelings about insurers are the biggest obstacle in market development in other transition countries, i.e. Georgia and Ukraine.

[46] Approximately, 20% cannot afford it; 35% do not fulfill basic requirements (age, health condition, etc.).

The bulk of the low-income market resides in rural areas and small towns, has basic education and do not use financial services. The low-income market consists mostly from those that we have classified as ‘uneducated’. In general, two biggest threats are: limited understanding of the insurance (risk-pooling) concept, and a strongly internalized stereotype that ‘insurance is only for rich’.

An appropriate approach is to focus on the ‘uneducated’ segment in the efforts to develop microinsurance market in Romania. Apart from developing new microinsurance products adapted to low-income market expectations, the outreach strategy should incorporate three other components: basic education on micro-insurance, marketing strategy putting emphasis on the price factor, and low-cost delivery channels allowing to deliver services affordable for the target group. This strategy promises to marry development and business objectives.

7. Supply of Microinsurance in Romania

There have been limited microinsurance efforts in Romania focused on MFIs or credit cooperatives. In many countries, low-income people are theoretically thought to be the future middle-income market. This transformation is often slow in developing countries. In Romania, the middle-income group is actually growing rapidly and is legitimately expected to grow more rapidly once EU accession is attained. The opportunities for low-income people will dramatically increase with the benefits and opportunities of EU membership. In Romania, the low-income market has more potential to move to the middle income or at least the upper-low-income group than in most developing countries. This presents a great opportunity for forward thinking insurers.

7.1. Who are the current and potential suppliers of microinsurance in Romania?

7.1.1. Government

The social protection programmes described in section 3.4 play an important role in helping low-income people manage some of their risks. Clearly, the focus of these programs is towards the lowest income groups. The lowest income families will never likely be able to access any type of commercial microinsurance and the efforts of government

Commercial microinsurance should be intended to enhance overall risk management options not simply replace government social security. However, one theoretical benefit of microinsurance is that if it reaches scale and scope it can help make government programs work more effectively (by removing people from the system that can fund their own or at least components of their own cover). In Romania, because of the expanding economy and the opportunities likely resulting from accession, there is a greater possibility of improving the overall effectiveness of the risk management structures throughout the income range, by creating more appropriate options.

7.1.2. Specialised Microinsurers (regulated)

Currently, Romania has no specialised regulated microinsurer. Additionally, there was no indication of plans for any such company.

7.1.3. Formal Insurers Moving Down-Market

During the visit, both insurers and insurance brokers expressed considered interest in developing products and working with the low-income market. They express that there is a rapidly growing middle class in Romania and that they recognize the potential for low-income families to move over time into this income level. The middle-income market can be very active for insurers and offers much potential. Several insurers / brokers also mentioned the potential in the rural areas. Recognizing the limitations of the rural market, brokers offered that they could easily develop an infrastructure to access those areas. What they lacked is an understanding of how to develop products for the low-income market, as well as how to market to them in a way that could be successful. This recognition is very positive and is often not seen in other countries.

Some insurers have indeed attempted to move down market. Generali has offered life and health products through CreditCoop, though with limited success. The management of CreditCoop offers that these products are not designed for the low-income market and that the follow-up of Generali has been insufficient.

Others insurers are interested in moving down-market including AVIVA who noted that they "want to put AVIVA into the hands of very-low income people", and ING who have announced plans to develop products to attract low-income factory workers. The National Savings Bank (in the process of privatization) has a wide network of 1400 branches extending into the low-income markets throughout the country.[47] Several insurers have approached them to offer insurance products.

Several insurance brokers noted the need for them to expand the market rather than just continue chasing people with their current market. They too expressed concern about how to access the low-income market efficiently.

In Romania, there is clearly significant interest among insurers and insurance brokers in accessing the low-income market. The attempts thus far have yielded limited results from acknowledged inappropriate products and marketing. Others interested do not clearly understand the requirements to successful entry into the low-income markets. This knowledge gap will have a detrimental impact on future microinsurance either due to holding back entry, or through experiences with inappropriate products and processes.

7.1.4. NGOs (unregulated)

No microinsurance risk appeared to be taken by any unregulated NGO. MFI NGOs are sending clients to insurers to provide collateral and credit life products, but there is no direct link between the MFI and the insurer. Although current MFI volumes are limited, there is interest from insurers in working with them, given MFI plans for growth.

7.1.5. Credit Unions and Cooperatives

As noted in Sections 3.2, the credit unions, although possessing over USD 300 million in assets, have limited potential and are currently operating in a legal quagmire. Typically, credit unions offer a savings life policy that provides a benefit of a multiple of the member's savings to be paid to their families on death.

The cooperative members have access to health and life products offered by Generale through the CreditCoop Casa Centrale. Section 3.3 discusses how these products have not fulfilled their potential.

7.1.6. Other Suppliers

There were no other suppliers of microinsurance products identified during this research.

7.1.7. Institutional Potential

For microinsurance to work, there is a need for a substantial volume of potential insured being serviced with some financial product by one or more financial institutions,[48] and one or more insurance companies ready, able, and enthusiastic about entering a new market with new products.

In Romania, there is potential for massifying microinsurance. Numerous actively interested insurers are available, and there are several potential institutional agents (MFPs in the general sense). Between the cooperatives, credit unions, MFIs and banks providing financial services to the low-income market, there are well over 2.5 million potential policyholders. The demand research shows that there is significant potential for policyholder volumes for each of health, life, and disability cover. The issue here is indeed institutional potential to be able to attract and service these potential policyholders.

On the demand side, the capacity of the credit unions is seriously in question given the very limited regulation and supervision of these entities. Cooperatives have been offering insurance but between them and the insurer, there have been marketing and product issues that require

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[47] Certainly restructuring will be in order after the bank's sale is completed.

[48] It is possible and recommended at a further point in Romanian microinsurance evolution that microinsurance be offered through an array of potential delivery channels. However, at first it is best to develop such products with an institution that is trusted by its clients, and that manages frequent financial transactions so that they can relatively easily manage the premium payments. Banks, MFPs, credit unions, cooperatives, and such organizations are appropriate for the initial implementation of microinsurance products.

assistance. MFIs are limited in scale at this point but have significant assistance in building their capacity to work with their clients in a professional and business-like manner.

Institutional capacity building for microinsurance would assist all of these entities (though a focus on credit unions might wait for improved oversight and institutional quality).

Insurers are eager, but have limited understanding of the requirements of the low-income market in terms of product design (cover, exclusions, premium frequency and method of collection, claims requirements and processes), development, marketing, premium pricing, and servicing. These are distinctly different for microinsurance and without an understanding of how to approach them for the low-income market, products will experience limited success. In terms of insurance systems and professionalism, insurers provide significant potential strength to microinsurance.

Improvement in the capacity of both the supply and demand actors in this process could have a major positive impact on the potential for microinsurance.

Outside of these players in microinsurance, there is also an important structural deficiency in Romania that may have a detrimental impact on microinsurance. Although there are actuaries, and even an association of actuaries (70 members, though few are certified actuaries), there are no mortality tables for insured lives available for Romania. This creates difficulties in pricing and invariably (this is a common problem) leads to conservative pricing and further excessive loading of microinsurance premiums to mitigate this lack of a critical input to the calculation. This approach yields premiums that may significantly reduce the potential market for microinsurance.

In order to comply with EU requirements much capacity building has been done to improve insurance regulation and supervision. These requirements will continue to force a high quality standard in these areas. Because microinsurance products have some key differences in their development, marketing, and servicing (for example, limited exclusions, alternative claims confirmation practices, the use of institutional agents, and very simple marketing) it will be important for the insurance supervisors to gain an improved understanding of microinsurance. One very positive sign was the participation of the Director General of the Regulatory Department of the Insurance Supervisory Commission in the February 2006 joint meeting of the International Association of Insurance Supervisors and the Working Group on Microinsurance sub-group on Regulation.

7.2. What is the anticipated Market Evolution?

Efforts at offering insurance products to the low-income market will continue and likely expand given the interest shown by all parties. However, there is a skills gap that does not seem to be presently addressed. This gap in understanding the development, marketing, and servicing of microinsurance as a set of products to be offered to a distinct market with new and different requirements will hinder effective growth and massification of microinsurance. Additionally, the lack of actuarial data for this market, and indeed the whole market in Romania, also leads to pricing that is likely prohibitive or at best unappealing to the low-income markets.

This is a market with great potential that can be realized if the microinsurance skills gap is closed. Such technical inputs coupled with the interest of the demand and supply side, and the likely economic boost of EU accession, could lead to massive use of microinsurance.

8. The Legal and Regulatory Environment

The legal and regulatory environment for insurance is clearly being guided and re-molded by the insurance regulations for the EU. Where in many countries these laws are far from adequate, the Romanian legal and regulatory environment will be in conformity with the tested and comprehensive laws of the EU.

8.1. What are the Legal and Regulatory Frameworks?

The insurance law and its numerous related Norms and Orders appears very open in terms of the requirements of microinsurance. This should facilitate innovation and flexibility in product development, marketing, and servicing. For example, in many countries individual products must be approved by the Insurance Commission. There is no indication in the Romania Law that such is required as long as its promotion (including presumably the insurance policy document) comply with Article 38(1). "The promotion or advertising activity cannot be used by or on behalf of an insurer or insurance intermediary if it directly or indirectly misleads, or may mislead, or conceals, or misinterprets the truth to insureds or to potential insureds about the insurer's assets, organizational structure, financial situation, experience, position on the insurance market, insurance terms or any other relevant information."[49]

Other potentially related Acts within the Law include:

Art. 11. (1) In Romania, the insurance business may only be carried-out by:
a) joint-stock companies, mutual companies, subsidiaries of foreign insurers established as Romanian legal entities

This allows flexibility of ownership and gives a prominent role to mutual insurers, a form that new microinsurance companies might take.

Art. 16: (1) Each insurer must cumulatively maintain:
(2) The paid-up social capital or, according to case, the paid-up free reserve fund cannot be less than:
a) Rol 7 billion (USD 226,000) for general insurance business, compulsory insurance excepted;
b) Rol 14 billion (USD 452,000) for general insurance business;
c) Rol 10 billion (USD 325,000) for life assurance business;

These levels will be increased to accommodate EU accession requirements to EUR 3 million.

Art. 20: (3) The insurer is responsible for the following:
i) to supervise the activity of the subordinated units and agents, in order to avoid jeopardising the insurance activities carried-out by the insurer;
j) to organise its internal control procedures in order to comply with legal requirements.

These allow supervision of the agents[50] by the insurer. This facilitates the creation of a partner-agent type model, and through the definition allows for institutional agents.

Art. 33. (2) Insurers cannot carry out insurance business through unauthorised brokers.

The role of an MFI or such intermediary might be construed as that of a broker rather than that of an agent, because the primary representational relationship for the MFI or cooperative would be with their client or member. Their role would be much more that of a broker (identifying an insurer to offer a particular product) and this might cause some difficulty.

Art. 34. (1) A person may be an insurer agent if he has a written in force authorisation from an insurer - called hereinafter the agency contract - in order to act on his behalf. An insurance

[49] This and the other articles are sourced directly from: Law No. 32/ Bucharest, April 3rd, 2000, LAW ON INSURANCE COMPANIES AND THE INSURANCE SUPERVISION. http://www.unsar.ro/legislatie/legea32_en.htm Currency conversions were performed by the author in accordance with the Note on Romanian Currancy, above.
[50] "Insurance agent": the private individual or body corporate who, based on an authorisation from an insurer, negotiates or closes insurance contracts with third parties in the account and on behalf of that insurer, in accordance with conditions stated in the mandate contract agreed upon.

agent cannot be both employed and agent of the same insurance company or of another insurance company.

This reinforces the comments from Article 20.

Art. 35.
(1) A body corporate may carry out an insurance broker business if granted with an authorisation of functioning from the Insurance Supervisory Commission;
(4) An insurance broker cannot be registered at the Commerce Record without the authorisation for functioning issued by the Insurance Supervisory Commission according to the present law.
(5) Any insurance broker must fulfil the following conditions:
a) be registered as a body corporate;
b) have a paid-up social capital in cash amounting no less than Rol 150 million (USD 4,800); this value will be updated through norms by the Insurance Supervisory Commission;
c) have an in force insurance policy for third party professional liability, according to provisions provided for by norms;
d) have as only object of activity the insurance broker business;

This article requires registration of the broker, and allows the broker only one line of business activity. This precludes any institutional broker such as an MFI or Cooperative. However, the minimum capital requirement is rather low and might not exclude the creation of a subsidiary broker.

These laws are frequently adjusted to move towards conformity with EU insurance law, and thus they require additional review as any activity approaches.

8.1.1. Framework for unregulated insurers
There is currently no special framework for unregulated “insurers” in Romania.

8.1.2. Framework for MFIs
The legal frameworks for MFIs, cooperatives (under the Casa Centrale), and banks all allow the sale of insurance products, but not the absorption of insurance risk by these entities. This precludes them from direct insuring and suggests the need for a partner-agent approach.

9. Developing a Microinsurance Sector in Romania
9.1. Creating an enabling environment at the policy level

The policy level environment will be normalized with the European insurance policy in the near future. Much of this work has already been accomplished.

In terms of microinsurance, what is important is to consider the needs of microinsurance within the process of policy reengineering. Some key issues to consider would include:
- The ability to maintain flexibility of agent requirements as long as the regulated insurer oversees their activities.
- The ability to use simple policy documents that can be understood by low-income less-literate populations.
- Permitting some flexibility in terms of group policies, and selling insurance products within a group without all the requirements of individual clients.
- Recognizing the importance of post claim assessment as a substitute for heavy underwriting at the time of initial application. This is a necessary efficiency measure for dealing with large volumes of insured providing small financial margins. This is important in supervision as well as ombudsman activities.
- Enhancing the consumer protection role of the supervisor is also important for strong microinsurance.

At this point, the important question is not necessarily how to improve the legal environment for microinsurance, but rather, can microinsurance succeed within the current environment while adjustments are being made. Especially if the microinsurance efforts are initially focused in terms of insurers and delivery channels the policy issues are unlikely detrimental to start-up and significant growth as long as a delivery channel has the depth to provide substantial clientele. Working with a group of financial institutions such as MFIs, credit unions, or Cooperatives could provide this focused delivery channel. However, legislation has been weak in terms of guiding the operations of these types of companies to which low-income people often access, when they do access formal financial services. These channels could be improved with stronger regulation.

If new microinsurance entities are contemplated – mutual benefit associations, even new insurers – the capital requirement increase to match the EU levels will make this difficult since a return on such large capital amounts would make obtaining a sufficient return difficult. However, with much interest from the commercial regulated insurers, it is likely that this will not be a direct issue. Where there might be a delay in entering the microinsurance market by regulated insurers will be related to the issues of consolidation with the insurance market that will be a result of the new minimum capital requirements. This was evidenced in Georgia where Aldagi was working well with Constanta Foundation to offer health microinsurance, but when they were taken over, management and ownership changed and this caused a halt to the microinsurance program.

9.2. Building an enabling environment through donor coordination and stakeholder education

Because of impending EU accession, some of the key donors are leaving Romania before the formal planned accession in 2007. DFID will have concluded operations by then. USAID which has had an important impact on building a home mortgage company which will require linkages with insurance asserts that they will "stay fully engage in assisting Romania through the EU accession in 2007."[51] USAID grantees note that they expect USAID to conclude activities in Romania after accession. EU/TACIS and GTZ are among those that expect to continue operating post-accession.

9.3. Creating Demonstration Models

In many places, demonstration models can help others see the value in a particular market or process. The AIG product in Uganda is a good example of a microinsurance product that became a market demanded requirement for almost all significant MFIs in Uganda, and then generated interest from other insurers. Now better and cheaper products are available to potential microinsurance policyholders as a result of the initial product and its success within that market. Just as potential microinsurance clients will wait to see if the first movers actually get what they were promised, insurance companies often want to see something work before they make an investment.

In Romania, the limited efforts so far have not generated any significant demonstration effect, but this is likely positive because of the product design issues noted above, as with the cooperatives, for example.

9.3.1. Supporting New Entrants

Of the six country pre-feasibility studies conducted so far in this series, Romania is the best example of a country that does not need new entrants to make microinsurance successful. Several insurers and brokers would be interested in this market if they could better understand it and what is required in terms of products and processes.

[51] USAID budget narrative for activities in Romania. http://www.usaid.gov/policy/budget/cbj2006/ee/ro.html

The traditional financial based delivery channels are limited and new efficient channels will need to be developed.

9.3.2. *Supporting Current Players*

Discussions with insurers and brokers, showed significant interest on their part to entering the low-income market. Their needs center on effective and efficient processes including the ability to identify and work with intermediaries. They are also deficient in information – mortality and morbidity, as well as other risk factor information – about the low-income market. Support to them would focus in these areas.

There is a significant insurance issue in Romania focused on natural disasters. It had appeared that the government was going to require insurers to offer such disaster risk policies to the markets. This initial reaction by the government to serious flooding in July 2005 seemed to wane, however, the floods of June 2006 may reignite that discussion. Assistance to insurers to develop appropriate products to address such cover would be beneficial. Additionally, although there are many reinsurers, helping to create a mechanism to limit their risk in such cases would also prove beneficial and would undoubtedly have a positive impact on the low-income market. Additional research would be required to develop a plan for potential KfW intervention in this area.

Discussions on the demand side with Creditcoop Casa Centralã and CDE showed interest and structural capacity to act as intermediaries (though CDE has a very limited client base). These institutions (especially the Creditcoop) would require assistance to negotiate with insurers for products as well as develop systems to efficiently sell the resulting products (this includes training and marketing).

Several domestic brokers are interested in developing the low-income market as part of their business activities. Using them could prove highly beneficial since the role of representing the policyholder is that of the broker. They could help to develop the products with intermediaries, and then would sell the risk to regulated insurers. This process would provide knowledgeable negotiation through an active effective current structure. However, in this model, the brokers will clearly have to be assisted in understanding the low-income market and how to assess its demands and develop products that respond to those demands.

Given the interest of the insurers, brokers, and limited intermediaries, coupled with the strong potential demand from the market (the market development zone) there is clearly an opportunity here for the introduction and expansion of microinsurance. Supporting these entities will require significant capacity building, data development, and development and implementation assistance.

10. Options for KfW to Improve the Expansion of Microinsurance

In identifying opportunities for KfW intervention, a list of principles was developed to guide the process. These principles are:

- Formal sector regulated insurers have the most appropriate skills base to manage microinsurance products, and thus they should be worked with, as appropriate.
- KfW's efforts should reduce the overall risk of low-income households within the risk management system.
- Ultimately, the impact of the sum of the interventions should be very large, and positively effect low-income people regardless of geography.
- Where the private sector is likely to develop itself in terms of microinsurance, KfW should not intervene except to assist that progress.

Based on the above principles, and the information gathered from insurers, bureaucrats, MFIs, Banks, and others, the options for KfW intervention in Romania are detailed in this section.

Among the countries selected for this series of pre-feasibility studies, Romania is unique. An EU accession country for 2007 (assuming several issues are addressed), with a growing middle class, growing economy, and reasonably strong, though in early growth, insurance sector. It is, generally, much "richer" than the other countries with USD 7,200 PPP GDP per capita. That said, there remains a significant low-income population, especially in the rural areas where many healthy, working age, productive people have fled looking for work in the cities, and leaving the young and old behind in the rural areas to be supported by agriculture efforts and remittances.

Romania is a country with microinsurance interest, if not yet significant implementation, from insurers, brokers, and other intermediaries. The efforts thus far at microinsurance have been limited and with difficulties derived from the lack of understanding of the low-income market.

Increased minimum capital requirements will push the industry towards consolidation. The government may push for insurers to offer catastrophic cover for floods. Insurance information flows well within the industry through the efforts of Media XPRIMM. There is at least one strong insurance association that even develops television programs to educate the (higher income) public about microinsurance. In short, there is an active and growing insurance industry in Romania. This industry could take on the low-income market with success, if certain provisions are made. Among the activities that could assist the efficient and effective introduction of microinsurance into the low-income markets could include the following:

- Insurers need information about this market. This includes:
  - Demand research - some of which has already been done for this pre-feasibility study.
  - Risk data – mortality, morbidity, and other risk tables are not available in Romania. Without an accepted and reasonably accurate basis for determining risk premiums, insurers must significantly load premiums in order to compensate for the information gaps. This leads to a reluctance to address the low income market based on their risk profiles and when products are offered, the premiums are too high because of the loadings to be acceptable to the mass market. Better data should improve this situation.
  - Assistance in linking to appropriate intermediaries. Efficient microinsurance will require linking to institutional agents. Finding these, identifying appropriate partners to work with, and developing the systems that make the relationships efficient all require particular technical knowledge and skills. Making such available will facilitate quality microinsurance provision.
  - Marketing strategies are different for the low-income market and typically insurers require assistance in recognizing this fact, and then in understanding how it must be different.
  - Simplifying processes and procedures are required to make microinsurance efficient. Insurers generally require some assistance in developing such systems for this market. Areas of required intervention typically include:
    - Premium collection, transfer, controls, and accounting

        - Claims applications, controls, and procedures
        - Even in policy development where it is important to limit exclusions, and make the policy and policy documents as simple as possible
    - Generally, this is a new market for insurers and competent assistance can help them more quickly and effectively offer quality microinsurance products, rather than running the risk that they will simply become frustrated and abandon the low-income market.

- Brokers could provide significant flexibility, professionalism, and market competition to the provision of microinsurance in Romania. The benefit of having insurance professionals representing the low-income market has the potential to be very powerful. However, brokers will need the same inputs as noted above for insurers.

- Intermediaries in Romania tend to be weak in terms of credit unions and limited in terms of MFIs. A two-pronged strategy to address this is both general institutional capacity building for the intermediaries, and the identification of large intermediaries outside the direct financial systems.

- With the government concerned about **catastrophic covers**, and indeed a need in the rural areas, assistance could prove beneficial in the following areas:
    - Assessing the financial risks
    - Developing mechanisms to collect premiums (maybe subsidized by government)
    - Developing codes with government to limit the insurers' risk
    - Developing reinsurance consortia to limit the risk of individual reinsurers

- Development of mechanisms to use **urban to rural remittances** to cover such needs as health and death benefits among the rural poor. This would include:
    - Developing efficient systems of premium payments from the remittance senders
    - Developing systems of claims adjustment and settlement within the rural context
    - Possible needs for health care service improvement

Clearly, the problem in Romania in terms of investments is that the structures that might require strict investment capital or long-term financing are in place. The needed structural inputs to facilitate microinsurance growth and massification are present. What are needed are the inputs that will help bring together the potential supply with the potential demand in the form of efficient products that respond to the market. Given the potential on both sides of the development matrix, a Public Private Partnership is likely the best option, though this is without significant investment or long-term financing options.

With willing and interested insurers and brokers, a public private partnership could provide the impetus to jump-start microinsurance while promoting the need for active and commercially incentivised private sector players.

Table 11: Summary of the Proposed Intervention

Problem	Potential market demand is strong, insurers and brokers are interested in expanding into the low-income market but the knowledge to match supply and demand within the particular low-income market are missing. Weak efforts have been made to introduce microinsurance, but without appropriate design, processes, or structures.
Impact of the problem	The impact of this knowledge gap has been weak, though limited, products already introduced and floundering, and an anxiety from insurers to enter this market. This has restricted the potential implementation and growth of quality microinsurance. Additionally, risk data is not available to insurers and this will result in excessively protective pricing making microinsurance unnecessarily expensive and effectively reducing the potential market.
Potential Interventions	Because the structural foundation is available for microinsurance in terms of existing and interested insurers and brokers, new institutions are not necessary. What is necessary is assistance to these institutions to properly develop, test, and implement an array of microinsurance products. A Public-Private Partnership would be an appropriate intervention in this market. Serious insurers or brokers would participate and the partnership would lead to the development and offering of quality microinsurance products. Offering these will create a demonstration effect that will expand microinsurance to other insurers. The resulting competition will be good for the markets, and especially the low-income households to which microinsurance is directed. The partnership could fund the inputs of a technical assistance team. This team would provide expertise on the various aspects of developing and offering microinsurance, including: o Product development o Premium setting o Partner identification and preparation o Policy development o Claims procedures o General and specific controls o Marketing o Training o And other deficiencies that might arise For the “public good”, the development of risk tables for use by all insurers, the regulators, and others would be extremely helpful. Such an intervention will require straight donor funding preferably through the Insurance Supervisory Commission or the National Association of Insurance and Reinsurance Companies of Romania.
Amount of financial investment	EUR 500,000
Type of Financial Investment	Public-Private Partnership – EUR 300,000 (total EUR 600,000 with cash and in-kind investment of EUR 300,000 from the private partners) Grant – EUR 200,000 to Insurance Supervisory Commission or National Association of Insurance and Reinsurance Companies to cover the actuarial table development, and microinsurance concept marketing
Possible partners	Aviva Insurance, Allianz Tiriac, EOS Risq Brokers, Insurance Supervisory Commission, National Association of Insurance and Reinsurance Companies of Romania, Association of Romanian Actuaries, National Union of Insurance Brokerage and Consultancy Societies of Romania, and Media XPRIMM

Form of TA	Technical assistance to directly address the issues identified above as "potential interventions". This will require expertise in the following areas: - microinsurance marketing - actuarial table development (an actuary or team of actuaries) - microinsurance product development and design - microinsurance training
Critical Success Factors	1. Market receptiveness, mitigated by the results of the detailed qualitative and quantitative research prepared for this pre-feasibility study, as well as planned training, materials development, and marketing. 2. Identification of sufficient intermediaries, mitigated by the presence of some intermediaries who could provide the demonstration effect to get others interested. Also, potential for non-financial based delivery channels (cell phone companies, card based insurance, agricultural retailers and wholesalers who have significant interaction with rural low-income households, and others) 3. Insurers and brokers who are willing to invest at least an aggregate EUR 300,000 in this low-income market.

11. Conclusions

Romania has significant potential for successful microinsurance interventions.

- Nearly 10 million people are within the future access frontier. This frontier becomes accessible when:
    - There is more market education so people understand what insurance is
    - There is significant demonstration effect so the market can begin to trust insurance
    - There are appropriately designed products, and
    - People can be shown the value of insurance
- Some current insurers and domestic brokers are significantly interested in this market, though have yet to significantly or successfully penetrate it. Key issues include:
    - Poorly designed products being offered to this market
    - Limited understand of the low-income market requirements and demands
    - Lack of knowledge of the risk structures within this market
    - Limited delivery channels identified
    - A strategy for successful market education

  Addressing these issues could improve market outreach with appropriate products, policies, marketing, controls, pricing, and procedures.

The ingredients for successful microinsurance are available in Romania. The effort now must be to develop linkages between the demand side and their related intermediaries, and the insurers and brokers. The regulatory framework is improving and is likely the best of the pre-feasibility countries evaluated thus far. The inputs to make microinsurance successful are in the details of product development, relationship management, and risk structure understanding and quantification, and development and management of appropriate controls. These issues could be addressed through a Public-Private Partnership based on technical assistance provision to help the insurance industry adapt to the low-income market niche.

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UNDP (2005) *Romania Human Development Report.*

World Bank (2003) *Romania Poverty Assessment.*

Appendix 1: Economic data for Romania

GDP PPP (USD Billions)	171.5 Billion (2004 est.)[52]
Population (millions)	22,329,977 (July 2005 est.)[53]
Population density per km^2	97/ sq km[54]
Percentage urban / rural population	50.6% / 59.4%[55]
GDP/Capita (USD)	Purchasing power parity - $7,700 (2004 est.)[56]
GDP Growth Rate	8.1% (2004 est.)[57]
Inflation	9.6% (2004 est.)[58]
Exchange Rate RON to USD 1	3.1[59]
PPP GDP per Capita (USD)	7,200 (2004 est.)[60]
Infant Mortality (per 1000 live births)	26.43 deaths/1,000 live births[61]
Under Five Mortality (per thousand)	20[62]
Maternal Mortality (per 100,000 live births)	58 (in 2003)[63]
Access to safe water (% of population)	57 % (2000)[64]
Total Health Expenditure as % of GDP (public/private/total)	4.2%/ 2.1 %/ 6.3 % (2002)[65]
Out-of-Pocket Spending as % of private spending on health	88.7% (2002)[66]
Total Health Expenditure per capita (at average exchange rate and in USD)	128 (2002)[67]
Doctors per thousand people	1.77 (in 1998)[68]
Hospital beds per thousand people (urban/rural)	7.3 (in 1999) (total)[69]
Literacy rate	*Definition:* age 15 and over can read and write *total population:* 98.4% *male:* 99.1% *female:* 97.7% (2003 est.)[70]

52 http://www.cia.gov/cia/publications/factbook/geos/ro.html
53 Ibid
54 Ibid
55 http://www.unhabitat.org/habrdd/conditions/easteurope/romania.htm
56 http://www.cia.gov/cia/publications/factbook/geos/ro.html
57 Ibid
58 Ibid
59 http://www.oanda.com/convert/classic
60 http://www.undp.ro/profile_romania.php
61 http://www.cia.gov/cia/publications/factbook/geos/ro.html
62 http://www.who.int/whr/2005/annex/annexe2a_en.pdf
63 http://www.who.int/healthinfo/statistics/mortality
64 http://globalis.gvu.unu.edu/indicator_detail.cfm?IndicatorID=147&Country=RO
65 World Health Organization. The World health report : 2005 : make every mother and child count, p.196.
66 Ibid, p. 197.
67 Ibid, p. 202.
68 http://www.euro.who.int?Document/e71423.pdf
69 Ibid
70 http://www.cia.gov/cia/publications/factbook/geos/ro.html

Appendix 2: Research objectives and methodology

Main goal of the research was to explore low-income households' needs for microinsurance as well as opportunities and challenges to microinsurance provision in order to project microinsurance market development in Romania.[71] Microinsurance is a market-based mechanism to reduce vulnerability of low-income households. Needs for microinsurance are being analyzed from development perspective - an add value of microinsurance in building economic security for low-income households in Romania. Whereas, analysis of opportunities and challenges provides insights into business potential of microinsurance. The main areas investigated in the research were the following:

- What are the most important risks for low-income households in terms of their financial pressure?
- What are the biggest gaps in risk-management strategies that can be replaced by microinsurance?
- How can current insurance knowledge, usage and attitude towards it influence launching new microinsurance products?
- What is willingness to pay for microinsurance?

Access frontier methodology developed by David Porteous is an underpinning conceptual framework for the study. Qualitative and quantitative research techniques were combined to respond to research objectives.

Qualitative research consisted of ten focus groups (FGs) composed of 5-7 participants. It was administered by Field Insights and Anamnesis. FGs were driven by participatory rapid appraisal tools and discussion guides. Research was conducted in Bucharest, the south and in the east of Romania as well as in urban and rural areas to control for important cultural differences. FGD participants were selected from low-income households.[72]

For the quantitative study a survey on representative sample of 1071 households heads has been carried out using face-to-face method. The survey has been administered by Field Insights. The sample was stratified by 8 development regions (see the map) where interviews were proportionally distributed according to the size of settlement (Table A-1). Settlements were randomly selected from every group of settlements. Random route sampling technique has been used.[73]

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[71] Low-income households definition is included in the section 4.

[72] More on qualitative research methodology and tools can be found in Annex 1.

[73] The survey questionnaire can be found in Annex 2. Fieldwork report is included in Annex 3. The sampling procedure included the following steps:

1. The sample is stratified by development regions (8 regions in Romania—Bucharest, South, South-West, Center, West, North-West, North-East, South-East). In each region, interviews are proportionally distributed according to the level of urbanization (Bucharest, big cities: 200,000+ inhabitants, medium cities: 50,000-200,000 inhabitants, small cities: <50,000 inhabitants and rural). The stratification proportion is in concordance with the data obtained from National Institute of Statistics for 2002.
2. Cities are randomly selected from every level of stratification.
3. The starting points in every city are randomly selected. There is a limit of maximum 10 questionnaires per starting point.
4. Flats/houses are selected using "left-right" method with a step of 3.
5. On the last stage of the sample, interview is conducted with the person who brings the highest income to the household. If eligible person is not available in that moment, interviewer visits the flat 3 times more.

Table A-1: Sampling plan.					
	Total	Bucharest	South-East and North-East	Center and West	South
Bucharest and large city	247	97	26	68	56
Medium city	170	0	50	78	42
Small town	167	5	37	64	61
Rural	487	12	172	194	109
Total	1,071	114	285	404	268

Appendix 3: Microinsurance product concepts tested

Disability microinsurance:

Coverage: This is the risk-management product that covers accidents leading to permanent disability during the fixed term (1, 3 or 5 years).
Benefit: The maximum fixed benefit of 2000 USD is paid in case of accident leading to permanent disability (loss of an eye, loss of a leg, loss of an arm, etc.). If nothing happens during the insurance term, the policyholder receives nothing.
Claim processing: Within 2 weeks of notification of accident all the benefits are transferred in cash.
Price: 2 USD per month

Life microinsurance:

Coverage: This is the risk-management product that covers death of the policyholder during the fixed term (1, 3 or 5 years).
Benefit: In case of death of the policyholder during the selected period his/her family receives a fixed benefit of 4000 USD. If the policyholder does not die the family receives nothing.
Claim processing: Within 2 weeks of notification of death all the benefits are transferred in cash to the family.
Price: 2 USD per person per month.
Frequency of premium payment: Payments can be done on a monthly basis or up-front.

Life microinsurance with investment plan *(tested as an option of life insurance)*:

Benefit: In case of death of the policyholder during the fixed term (10 years) his/her family receives the amount saved and a fixed benefit of 4000 USD. If the policyholder has not died he/she receives all his/her savings and interest earned on them (which is approx. 1250 USD (interest = 290 USD) for 10 years).
Price: the premium payment would be the same as in the previous product presented = 2 USD per person per month and the savings would be a fixed monthly amount of at least 8 USD. It gives a total payment of at least 10 USD per person per month.

Property microinsurance:

Coverage: This is the risk management product that covers a loss or damage (due to theft/fire) of a productive or household asset(s) of the value in between 200-8000 USD.
Benefit: 70% of current market value of insured asset(s).
Claim processing: Within one month of notification of asset loss/damage all the benefits are transferred in cash to the client
Price: 2% of the current value of the insured assets, i.e. if you insure an asset worth 2000 USD, you will have to pay 40 USD for the year (3.4 USD monthly); in case of a loss you will obtain 1400 USD. If nothing happens during the insurance term, the policyholder receives nothing.

Appendix 4: Institutions and people visited

Insurers and Insurance Intermediaries:

- AIG Romania S.A. (www.aig.com)
  - Mr. Mihnea T.S. Tobescu, General Manager, mihnea.tobescu@aig.com +40 21 318 31 02
- Eurogroup Insurance Brokers
  - Mr. Sorin Pinzaru, Technical Director, eurogroup@b.astral.ro, +40 21 312 94 65/6.
- Aviva Life Insurance S.A. (www.aviva.ro)
  - Mr. Carl O. Boehr, President and CEO, carl.boehr@aviva.ro, +40 21 203 8300
  - Mr. Adrian Allott, Finance Director and Actuary, adrian.allott@aviva.ro, +40 21 203 8310
- EOS Risq Romania S.A. (www.eosrisq.com)
  - Mr. Bogdan C. Andriescu, Managing Partner, bogdan.andriescu@eosrisq.com, +40 21 314 20 33
- Allianz Tiriac (www.allianztiriac.ro)
  - Mr. Cristian Constantinescu, President, office@allianztiriac.ro, +40 21 208 2222

Microfinance Institutions / Banks / Credit Unions:

- ProCredit Bank (www.procreditbank.ro)
  - Mr. Michael Kowalski, General Manager, michael.kowalski@procreditbank.ro, +40 21 201 6045.
- Creditcoop Casa Centralã (www.creditcoop.ro)
  - Mr. Aristide Iordache, Vice President, iordache@creditcoop.ro, +40 21 212 7485.
- Economic Development Center (CDE) (www.cde.ro)
  - Mr. Iulian Manole, Program Manager, imanole@cde.ro, +40 21 212 0730/1.

Microfinance Support Organisations:

- German-Romanian Fund (www.microfinantare.ro)
  - Mr. Arnaud Laparade, Project Manager, arnaud.laparade@microfinantare.ro, +40 21 314 6905.

Private Sector Groups:

- The Association of Romanian Actuaries
  - Mr. Adrian Allott, President (also Aviva), adrian.allott@aviva.ro, +40 21 203 8310
- The National Union of Insurance Brokerage and Consultancy Societies of Romania (www.unsicar.ro)
  - Mr. Bogdan Andriescu, President (also EOS Risq Romania), bogdan.andriescu@eosrisq.com or office@unsicar.ro, +40 21 322 91 27.
- The National Association of Insurance and Reinsurance Companies of Romania (www.unsar.ro)
  - Ms. Florentina Almăjanu, Secretary General, florentina.almajanu@rdsnet.ro, +40 21 317 7830.
- Media XPRIMM (www.xprimm.ro)
  - Mr. Alexandru Ciuncan, International Relations Coordinator, alexandru.ciuncan@mxp.ro, +40 21 252 4671.
  - Ms. Mihaela Cîrcu, XPRIMM Newsletters Coordinator, mihaela.circu@mxp.ro, +40 21 252 4671.

Donors and International Organisations:

- European Bank for Reconstruction and Development (www.ebrd.com)
  - Ms. Andreea Moraru, Associate Banker, morarua@ebrd.com, +40 21 202 7110.
- GTZ (www.gtz.ro)
  - Mr. Wienfried A. Senker, Country Director, wienfried.senker@gtz.ro, +40 21 319 0176/7.
  - Mr. Daniel Coşniță, Project Manager, Daniel.cosnita@gtz.ro, +40 21 319 0176/7.

Government Representatives:

- Insurance Supervisory Commission Regulatory Department (www.asig.ro)
    - Mr. Paul Mitroi, Director General, pmitroi@csa-isc.ro, +40 21 316 7880/1 int. 223.

Large events attended:

- The annual awards dinner of the National Union of Insurance Brokerage and Consultancy Societies of Romania

Appendix 5: Some comments on qualitative versus quantitative research

Market research is a critical step in understanding a market and the consumers within it. It is appropriately used at critical points along the process of a controlled product development process. Two broad types of market research may be conducted: "qualitative" research and "quantitative" research. These methods have significant differences, as noted in the table below.

	Qualitative	**Quantitative**
Use/Objective	To gain an in-depth understanding of consumer behaviour and attitudes	To measure behaviour and attitudes
Method	Facilitated questioning (open-ended, probing questions, controlled discussion)	Structured surveys (focused, prompting questions, just Q&A)
Participants	Homogeneous, small groups	Statistically representative sample of a population
Output	Consumer words and descriptions	Coded responses
Required Skills	Focus group / PRA facilitation training and expertise	Statistical analysis and survey design

Thus, qualitative research is commonly used in the initial phases of market research while quantitative research is typically used when there is already a product prototype. Quantitative research is inappropriate for exploring the rich complexity of human life and thus market needs. It is difficult to formulate appropriate qualitative questions when there is not a clear idea of the product itself. Thus, quantitative approaches will be more appropriate when seeking to quantify the level of demand for a well-defined product prototype.

Qualitative research is best for generating ideas and concepts, and gaining an understanding of behaviours and attitudes to find out why people behave or think the way they do. It is good for developing ideas to refine existing products, develop new products, identify potential new programmes, and plan new marketing or advertising campaigns.

For these reasons qualitative research was used in this study to understand better the risks people faced, how they address them, and where gaps might be that could lead to potential interventions. It provided a good understanding of what people thought of insurance, and what they felt they needed.

Qualitative research does have some limitations as a result of the limited numbers of participants, and the probing methodology. The results are not necessarily representative of a market because the numbers of participants is limited, and because of the level of interpretation, it is possible that an analyst with a particular point of view may interpret the thoughts and comments selectively to support that view. For these reasons, the core researchers and analysts selected for this project are fully trained and certified MicroSave microfinance researchers. MicroSave is recognised as one of the most important microfinance market research training organisations in the world. More information on participatory rapid appraisal and its benefits in this type of research is available from www.microsave.org.

Appendix 6: Glossary of selected insurance terms

Accident: An event that is unforeseen, unexpected, and unintended.

Actuary: A person who calculates insurance and annuity premiums, reserves, and dividends.

Adverse Selection: Tendency of persons with a higher-than-average chance of loss to seek insurance at standard (average) rates, which, if not controlled by underwriting, results in higher-than-expected loss levels

Agent: An insurance company representative who solicits, negotiates or effects contracts of insurance, and provides service to the policyholder for the insurer, usually for a commission on the premium payments.

Beneficiary: The person or financial instrument (for example, a trust fund), named in the policy as the recipient of insurance money in the event of the occurrence of an insured event.

Benefits: The amount payable by the insurance company to a claimant, assignee, or beneficiary under each coverage.

Broker: A sales and service representative who handles insurance for clients, generally selling insurance of various kinds and for several companies. Brokers resemble agents, except for the fact that, in a legal sense, brokers represent the party seeking insurance rather than the insurance company.

Claim: A request for payment of a loss that may come under the terms of an insurance contract.

Commission: The part of an insurance premium paid by the insurer to an agent or broker for services in procuring and servicing the insurance policy(ies).

Composite insurance company: An insurance company that can sell both life and non-life insurance products.

Comprehensive medical expense insurance: Insurance that provides coverage, in one policy, for basic hospital expense and major medical expense.

Co-payment: Mechanism, used by insurers to share risk with policyholders and reduce moral hazard, which establishes a formula for dividing the payment of losses between the insurer and the policyholder. For example, a co-payment arrangement might require a policyholder to pay 30% of all losses while the insurer covers the remainder.

Covariant risk: A risk, or combination of risks, that effects a large number of the insured items/people at the same, for example an earthquake, or a major flood.

Coverage: The scope of protection provided under a contract of insurance, and any of several risks covered by a policy.

Credit Life Insurance (or “Outstanding Balance Life Insurance”): Insurance coverage that repays the outstanding balance on loans in default due to the death of the borrower. Occasionally, partial or complete disability coverage is also included.

Deductible(s) (or “Excess”): Mechanism, used by insurers to share risk with policyholders and reduce moral hazard, which establishes an amount or percentage which a policyholder agrees to pay, per claim or insured event, toward the total amount of an insured loss.

Disability: Physical or mental condition that prevents a person from performing one or more occupational duties temporarily (short-term), permanently (long-term), and / or totally (total disability).

Disability benefit: A feature added to some life insurance policies providing for waiver of premium, and sometimes payment of monthly or lump sum income, if the policyholder becomes temporarily, totally and / or permanently disabled.

Distribution Channel: Type of process used to deliver insurance policies to clients. Direct marketing and agents are two examples of different distribution channels

Endowment policies: The insurer pays a lump sum at the end of an agreed period of policyholder investment.

Exclusions (or “exceptions”): Specific conditions or circumstances listed in the policy for which the policy will not provide benefit payments.

Experience: The record of claims made or paid within a specified time period.

Fraud: Intentional perversion of truth in order to induce another to part with something of value.

Group Insurance: Insurance written on a number of people under a single master policy, issued to their employer or to an association or other organization with which they are affiliated.

Group life insurance: Life insurance on a group of people under a master policy that usually does not require medical examinations. It is typically issued to an employer for the benefit of employees, or to members of an association or some other related group, for example, a professional membership group. The individual members of the group generally hold evidence of their insurance.

Health insurance: Coverage that provides benefits as a result of sickness or injury. Policies include insurance for losses from accident, medical expense, disability, or accidental death and dismemberment.

Insurable interest: A financial reliance you have on someone (such as a spouse) or something that can be covered by insurance. For example, you need an "insurable interest" in someone in order to buy a life insurance policy on that person's life.

Insurable risk: The conditions that make a risk insurable are (1) the peril insured against must produce a definite loss not under the control of the insured, (2) there must be a large number of homogeneous exposures subject to the same perils, (3) the loss must be calculable and the cost of insuring it must be economically feasible, (4) the peril must be unlikely to affect all policyholders simultaneously, and (5) the loss produced by a risk must be definite and have a potential to be financially serious.

Insurance: A risk management system under which individuals, businesses, and other organizations or entities, in exchange for payment of a sum of money (a premium), offers an opportunity to share the risk of possible financial loss through guaranteed compensation for losses resulting from certain perils under specified conditions.

Insurance density: the ratio of insurance premiums paid in a year per person.

Insurance penetration: The ratio of insurance premiums paid in a year to gross domestic product.

Insured: The policyholder - the individual(s), businesses, other organizations or entities protected by an insurance policy in case of a loss or claim.

Insurer: The party to the insurance contract who promises to pay losses or benefits.

Lapse: The termination or discontinuance of an insurance policy due to non-payment of a premium.

“Law of Large Numbers”: Concept that the greater the number of exposures (for example, lives insured), the more closely will actual results approach the results expected from an infinite number of exposures. Thus, the larger the number of people in the insured risk pool, the more stabile the likely results of risk event occurrences.

Loss Ratio: The ratio of claims during a certain period divided by the premiums for that same period.

Microinsurance: Microinsurance is the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. Low-income people can use microinsurance, where it is available, as one of several tools to manage risks.

Moral hazard: Hazard arising from any non-physical, personal characteristic of a risk that increases the possibility of loss or may intensify the severity of loss for instance bad habits or low integrity. An example might include failing to properly care for an insured goat because it is insured, thereby increasing the chance it will die of disease.

Mortality table: An actuarial table based on mortality statistics over a number of years.

Mutual Insurer: Insurance in which the ownership and control is vested in the policyholders, who elect a management team to conduct day-to-day operations.

Pensions: The insurer pays an agreed amount to the beneficiary for an agreed period based on regular investments of the beneficiary until the date disbursement commences.

Policy: The printed document issued to the policyholder by the company stating the terms and conditions of the insurance contract.

Policy term: The period for which an insurance policy provides coverage.

Premium: The sum paid by a policyholder to keep an insurance policy in force.

Property insurance: Insurance providing financial protection against the loss of, or damage to, real and personal property caused by such perils as fire, theft, windstorm, hail, explosion, riot, aircraft, motor vehicles, vandalism, malicious mischief, riot and civil commotion, and smoke.

Reinsurance: A form of insurance that insurance companies buy for their own protection. One or more insurance companies assume all or part of a risk undertaken by another insurance company.

Reserves: An amount representing liabilities kept by an insurer to provide for future commitments under policies outstanding.

Risk: The chance of loss. Also used to refer to the insured or to property covered by a policy.

Risk Management: Systematic process for the identification and evaluation of pure loss exposures faced by an organization or individual, and for the selection and implementation of the most appropriate techniques for treating such exposures.

Risk Pooling: Spreading of losses incurred by a few over a larger group, so that in the process, each individual group members' losses are limited to the average loss (premium payments) rather than the potentially larger actual loss that might be sustained by an individual. Risk pooling effectively disperses losses incurred by a few over a larger group.

Settlement: Payment of the benefits specified in an insurance policy.

Term insurance: A plan of insurance that covers the insured for only a certain period of time (term), not for his or her entire life. The policy pays death benefits only if the insured dies during the term.

Underwriter: (1) A company that receives the premiums and accepts responsibility for the fulfilment of the policy contract. (2) The company employee who decides whether or not the company should assume a particular risk.