



Microinsurance in Brazil, Colombia, Mexico, and Peru

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Abstract

The microinsurance market in Latin America is still in its embryonic phase. The purpose of this technical note is to better inform donors, national governments, and insurance companies interested in promoting financial inclusion about how they can accelerate the development of microinsurance markets. Four countries—Brazil, Colombia, Mexico, and Peru—are reviewed to glean lessons learned about paths taken to develop these markets and the interaction of key stakeholders. The main findings are that an intermediate regulatory stance in which regulators and insurance companies collaborate to establish the appropriate framework seems to be more prudent than either having regulators pursue a laissez-faire route or establishing rigid rules that are not supported by empirical or performance data. Second, the public sector has a large role to play in helping to coordinate key stakeholders and in addressing some of the challenges associated with obtaining accurate socioeconomic data on the lower-income population. Third, from the perspective of private insurance companies, life and funeral products have sold well and represent the lower rung compared to property, health, and agricultural products. Fourth, donors have many instruments that can be used to assist both the private and the public sectors.

Keywords: Microinsurance, financial inclusion, Brazil, Colombia, Mexico, Peru

JEL Classification: G22, G28, O57

1. Introduction

As microcredit begins to become a household term, microinsurance represents a new frontier in the provision of financial services to the low-income population that has large growth potential. In many ways, microinsurance today parallels the early days of microcredit: in most areas, product offering is limited, consumer uptake is low, consumer protection laws are untested, regulatory uncertainty prevails in some areas, and the search for scalable, profitable, and appropriate solutions is still underway.

It is estimated that some 140 million people, mostly in Africa and Asia, are now covered by affordable insurance. This is only a tiny fraction of the potential market, which ranges from 2 to 3 billion people. Furthermore, it is estimated that more than half of all microinsurance products are focused on whole life and health, while property, agriculture, and livestock protection account for considerably less.¹ As a result, there is interest in accelerating market development and in verifying whether there truly are positive impacts on clients.

2. Definition of Microinsurance

All insurance is designed to protect the policyholder from risk. Microinsurance encompasses a range of insurance products that are designed to address the risks and special needs of low-income clients. Craig Churchill (2006: 12) defines microinsurance as “the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved.” The most common features are modest coverage level and very low premiums, sometimes paid irregularly depending on the household’s cash flow.

Risk affects all population segments and can result in economic and welfare losses, such as property damage and theft, accidents, natural disasters, sickness, dismemberment, and death of the head of household. Mitigating risk is important for every individual, and different mechanisms, both formal and informal, exist. For individuals with limited means and uneven, unpredictable income streams, however, developing strategies to deal with risk is more urgent given their greater vulnerability,

¹ MunichRe website: <http://www.munichre-foundation.org/StiftungsWebsite/Projects/Microinsurance/2010Microinsurance>

limited resources, and propensity to live in areas such as flood plains and slums, where crime rates are relatively higher or they cultivate marginal lands with minimal purchased inputs. The lack of insurance has an impact on cyclical poverty, since adverse events can generate income shocks that can drive poor people further into poverty, destroying or forcing the liquidation of assets they may have accumulated during their lifetimes. Not only do such shocks cause a loss of immediate income and threaten welfare, but they may also affect long-term income-earning potential by lowering productivity and creating higher levels of vulnerability, in a process known as the poverty-vulnerability vicious cycle. Moreover, experiencing major shocks alters expectations about potential future shocks. This further depresses prospective income for the poor because they may become more risk-averse and invest their limited resources in low-yield activities, such as drought-resistant subsistence crops, or they may decide not to expand a line of business for fear of assuming more variance in revenue flows, to protect against shocks (Mosley, 2007).

3. Risk-Mitigating Financial Alternatives to Microinsurance

Since formal microinsurance is scarce, most low-income households depend upon a number of informal risk-coping and risk-mitigating strategies as a substitute. Some examples of these include:

- informal emergency loans
- rotating savings and credit associations (ROSCAs)
- relying on family or community members, i.e., having more children as an informal pension plan, in which parents invest in children who will in turn care for them in their old age
- holding assets that can be liquidated easily, such as livestock or jewelry, for precautionary savings
- formal and informal lines of credit
- other informal reciprocal and mutual assistance schemes, such as gift-giving or communal seed storage

While traditional informal risk-mitigating and coping strategies can provide some protection, many of these strategies are non-robust and fail to provide adequate

protection, especially when the shock is covariate and systemic, affecting an entire region or community where poor households reside. Neighbors, relatives, suppliers, traders, and employers who previously could be relied upon may be adversely affected as well, so they cannot provide informal reciprocal kinds of help when the shock is idiosyncratic. Microinsurance products are designed to fill in the coverage gaps that traditional methods and imperfect or underdeveloped public social protection schemes leave open. Additionally, microinsurance is useful for events that are less frequent but have larger impacts, as opposed to savings, which is useful for frequent events of lower scale.

4. The Promise of Microinsurance

Microinsurance has generated considerable interest in the donor community on account of its potential social benefits, i.e., diminution of vulnerability, but it has also generated significant interest from commercial insurers due to attractive economic returns. The International Labour Organization (ILO) reports that margins on life products are about 15 percent. Considering the size of the potential market for microinsurance policies—approximately 2 to 3 billion people who are currently uninsured—these new clients represent significant untapped growth potential for insurance companies, particularly given that insurance markets in the developed world are saturated. Additionally, these companies anticipate that low-income customers have the potential to earn higher incomes over time and will graduate to larger policies and higher-margin products once they become more familiar with the benefits of insurance. Microinsurance can either complement or provide an imperfect substitute for government-provided social protection, especially where it can be more efficient than government services alone. Commercial schemes have the potential advantage of strengthened sustainability and efficiency, but must be integrated by policymakers into a national strategy for social protection.

5. The Challenges of Microfinance

Despite their interest in working with low-income clients, commercial insurers face many challenges. They lack fundamental information needed to design products that are financially and actuarially sound while providing value to their customers and delivering

the products through appropriate distribution channels. Because of the nature of poverty and economic exclusion, low-income populations that are targets of microinsurers are quite different from traditional middle- and upper-class insurance policyholders. They live in different areas, have different life expectancies, have different patterns of morbidity, have different health needs due to a higher average number of dependents in the household, face relatively higher physical assault risks due to crime and violence, and work in places with relatively more occupational hazards and environmental health risks. They also tend to be less financially literate. As a result of these differences, the data that insurance companies use to calculate actuarial probabilities and design traditional insurance products are not applicable.

One reason that *Portfolios of the Poor* (Collins, et al., 2009) is such a pioneering work is that it sheds light on the ingenious and often counterintuitive ways that poor people manage their sporadic and uncertain incomes. For example, poor households in the selected countries often used credit as opposed to savings to manage a risk event, because accumulating savings is such an arduous undertaking. The psychological comfort derived from maintaining low-yield savings balances seem to outweigh the high cost of debt servicing. *Portfolios of the Poor* covered South Africa, India, and Bangladesh. Similar studies are needed for other countries. Because little is known about financial decision-making processes in poor households, more extensive socioeconomic and demographic information on poor communities is needed to construct accurate profiles by which insurance companies can understand this new customer base and design appropriate products to suit their needs and payment capacities.

Second, insurance companies are accustomed to using well-educated agents/brokers operating out of offices to sell policies. In selling insurance products “down-market,” new channels such as shopkeepers, mobile platforms, community-based organizations, and non-governmental organizations will have to be used because the cost of opening a network of offices in low-income neighborhoods is prohibitive.

Finally, microinsurance market development can be impeded by an uncertain and ambiguous regulatory framework. When microinsurance products are not clearly envisioned and explicitly considered, commercial insurance companies are not likely to be the first movers in developing this segment of the market. If they fail, the losses could

be substantial. If they succeed, second and third movers can easily copy their products at lower cost and even hire their staff that developed the products and marketing campaigns by offering higher salaries and more responsibilities.

6. Market Development Considerations

6.1 Target Population

Microinsurance, like microcredit, is not appropriate for the destitute. Similarly, it is not meant to displace public social welfare programs. Microinsurance policies alone are insufficient protection for poor people, especially the non-working poor. Instead, they should be seen as complementary instruments in social risk management (Mosley, 2007). In most microinsurance markets, the targeted income strata are individuals earning above US\$2 a day who are in need of social protection. However, insurance schemes must be designed and targeted appropriately. For people earning less than a US\$1 a day, formal insurance can easily be seen as an unaffordable luxury since the need to spend scarce income on daily survival, i.e., food, fuel, transportation, medicine, school-related fees, etc., limits the demand for this market-based financial service. This segment should be targeted through social safety net schemes.

In terms of beneficiaries, all members of poor to above-poor households serve to benefit directly from protection from potential shocks to income, such as death or dismemberment or crop failure. Society as a whole can also benefit from individuals purchasing microinsurance, as insurance coverage provides positive externalities such as reduced demand for government emergency programs.

6.2 Product Offerings

Insurance is a dynamic product that can be designed and tailored to the unique needs of the customer, provided that an accurate assessment of the client's risks and his or her coverage needs can be made. The spectrum of microinsurance products corresponds to the same risk events, and can generally be grouped under the broad categories of: Life,

Accident and Disability, Health, Property, and Agriculture.² Within these broad categories, coverage can be designed for a variety of risk events. For instance, life insurance has many types of products, and runs the gamut from credit life, funeral insurance, term life, whole life, cash value, disability, to annuities and pensions. Additionally, designing these products and offering them profitably has varying degrees of difficulty.

At the easiest end of the spectrum is credit life insurance, which covers unpaid loans in the event the holder dies before the loan is repaid. While this type of microinsurance is prolific and profitable to the financial institutions that provide it, it offers little benefit to clients, and many are often unaware that they have paid for coverage as it is mandatorily packaged into microloans. Agriculture and health insurance are at the opposite end of the spectrum, as sustainable models have yet to be developed. Indeed, providing agricultural insurance has often failed in the past because of the inability to collect accurately, minimize moral hazard and adverse selection problems, and maintain reasonably low administrative and operational expenses. Some progress is being made, however, through the development of index insurance.

Microinsurance is specially designed for the particular needs of low-income clients. In order to accommodate these needs, it has special features that deviate from traditional insurance, such as:

- simplified policies and procedures given clients' limited education and literacy
- premium payment schedules and systems adjusted to sporadic income flows and heavy reliance on cash payments as opposed to electronic payments, payroll deductions, or mailed-in payments that are more common with middle-class clients
- few or no exclusions in the policy
- limited screening requirements
- small sums are insured
- community or group pricing

² Includes a number of sublines: crop, livestock, forestry, aquacultures, bloodlines, greenhouses, catastrophic crop, catastrophic livestock, and five main types of product offerings-named peril, multiple peril crop insurance, livestock mortality, index, and revenue.

- distribution channels and agents that may take over service functions such as customer service, premium collection, and claims payment
- quick claims processing and relaxed documentation requirements.

Additionally, products should aim to be tangible value propositions. Since insurance coverage provides benefits that are not necessarily accessed unless a risk event occurs, clients with limited means may not feel the benefits of being policyholders and, given their tighter budgets, are more likely to let coverage lapse. Products must be attractive to clients on all levels—they must be affordable, culturally geographically accessible, and easy to understand.

Table 1. Characteristics of Microinsurance vs. Traditional Insurance

Characteristic	Microinsurance	Traditional Insurance
Documentation	Simplified contractual language, adjusted for clients' limited literacy.	Extensive text written in convoluted language that address disclaimers, exclusions, time limits on claims, renewal deadlines, the claim handling process, and grievance procedures.
Premium Payment	Premium structures modified for clients' irregular cash flows.	Standard periodic payments (e.g. monthly or annual premiums).
	Payments possible in cash or along with other financial transactions such as loans or utilities.	Payments made directly to brokers in non-cash formats such as checks, money orders or credit cards.
Screening	Limited screening requirements to speed processes, cut costs and ensure uptake.	Policies may require extensive client histories and background checks.
Coverage	Clearly defined, only small sums are insured	Generous upper coverage limits.
	Community or group-level pricing is available	Pricing is based on individual coverage or through employer networks
	Broadly inclusive with few or no exclusions	Any number of exclusions, copayments may be included
Distribution	Distribution channel close to target markets (e.g., financial institutions, retailers, NGOs, public offices, utilities, correspondent-merchants).	Distribution is typically centralized through a bricks-and-mortar presence or sometimes through online sales.
Settlements	Claims are settled quickly with eased documents requirements.	Claims investigated based on supporting documentation; during interim clients draw on other resources to manage the financial costs of risks.
Administration	Profitability driven by keeping costs down, making the quick attainment of scale is imperative.	Margins are higher so smaller scale needed for profitability.
	Use of information and communication technology can serve to lower costs substantially but represent lumpy upfront investment costs.	The cost of servicing policies compared to the policy value is less onerous, so administrative functions are performed in house.

Sales, other service and administrative functions may have to be outsourced to other agents more geographically proximate to the client in order to reduce costs, to allow more effective marketing, and to engender higher levels of trust.

Value Proposition	May provide tangible value in addition to intangible insurance protection. Not understood to be a contingent contract. May need to be bundled with other financial services or offer several defined benefits.	Intangible insurance protection. Understood to be a contingent contract.
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7. Challenges to Delivering Microinsurance

7.1 Demand-Side Challenges

When assessing risk, individuals tend to have overly optimistic views about the probability of their experiencing risk events. Consequently, they under-invest in insurance. Additionally, many cultural norms inhibit clients from discussing negative events or death. These issues, among others, suppress consumer demand for microinsurance and make offering products more challenging:

- **Client education:** many clients have not had prior experience with formal insurance products and are unaware of their true exposure to risk, how the products can protect them, how solvent and trustworthy the insurance company is, and how claims will be handled.
- **Limited means:** clients must balance spending on insurance against other essentials, and they have very little disposable income. Formal insurance is often viewed as a luxury good.
- **Renewal/providing tangible value:** even clients that become aware of the value of insurance may not renew their policies given that the benefit of insurance is not felt unless a risk event occurs. To address this, many microinsurance policies should provide value during the course of the policy in addition to the intangible value of insurance and payouts when claims are made against risk events. Clients must understand the contingent nature of insurance policies.

- **Trust:** unlike microcredit, in which clients are entrusted with funds from financial institutions with an obligation to repay, in microinsurance trust must be extended in the opposite direction. Clients must be confident that policies will pay out when they file claims.

7.2 Supply-Side Challenges

From the private sector point of view, many traditional insurers have expressed strong interest in microinsurance and have a bullish view on its potential. Some providers, such as Allianz, predict that up to 20 percent of their clientele will be very low-income by 2020.³ To achieve this scale, however, these insurers must overcome the three broad challenges listed below:

Specific to microinsurance:

- 1. Lack of proximity to clients:** establishing new distribution models, partners, and customer service standards. In order for microinsurance to be viable, it has to achieve massive market penetration quickly.
 - a. **Distribution:** reaching poor clients in slums or remote rural areas can be difficult. Insurers typically sell policies through brokers housed in brick-and-mortar outlets, but this is not generally an available or desirable option in dealing with low-income clients. Instead, insurers must establish trust with new clients and can do so through alternative distribution points, such as NGOs, MFIs, and cooperatives.
 - b. **Reputational risk:** while engaging grassroots partners may allow insurers to reach clients, they retain ultimate responsibility for monitoring partners and insuring that they comply with standards of service.
 - c. **Profit-sharing:** ensuring that strategic partners are satisfied with the value proposition in offering microinsurance products and are properly incentivized to sell appropriately.
- 2. Product design:** must be useful, simple, and understandable to clients while at the same time affordable and culturally sensitive. For instance, risk aversion is

³Interview with Allianz's microinsurance head Michael Anthony.

not uniform across cultures, with clients in some countries exhibiting greater risk-seeking behaviors than in others.

3. **Administrative costs:** given that microinsurance is a product line with low margins, to achieve significant returns it must have high sales volumes and costs must be kept down. Increasing efficiency and decreasing costs can potentially be accomplished through eliminating paper and applying digital technology solutions to processes. Areas where such costs are incurred include:
 - a. Sales
 - b. Premium collections
 - c. Claims/servicing products

Other challenges, some of which apply to all insurance products, pose additional trials in this relatively uncharted territory because of more severe information asymmetry:

- **Moral hazard:** given that the risk-bearing insurer is less likely be the point of contact for sales, it must rely on partners to monitor client behavior and assure that insured clients are not engaging in risky behavior that will trigger a claim.
- **Adverse selection:** lack of familiarity with the client base might prevent accurate risk screening, but this is where product design and partners can assist greatly in avoiding the truly high-risk clients and forcing self sorting among clients.
- **Effective targeting:** accurately identifying groups that have sufficient effective demand and positive margin so that the product to be profitable.
- **Marketing:** overcoming misperceptions of poor clients concerning the risks they face and helping them understand the benefits of insurance.

- **Regulatory uncertainty:** Most countries in the region do not have specific norms established for microinsurance. In this environment, business models that might be profitable without definition face regulatory risk if supervisors decide to

Microcredit vs. Microinsurance Development

When microcredit emerged in the 1970s, it was a not-for-profit, experimental service that was largely financed by donors and provided by local NGOs. Microcredit did not initially generate sustainable income; while repayment was remarkably high, so were costs.

In contrast, microinsurance is developing with certain advantages, including over 30 years of learning acquired through microcredit trial and error and public recognition of microcredit's potential to reach the poor through the UN's year of microcredit in 2005 and the awarding of the Nobel Peace Prize to the Grameen Bank and Muhammad Yunus in 2006. With the publication of works like C.K. Prahalad's *The Fortune at the Bottom of the Pyramid*, providing financial services to the poor has become increasingly commercially oriented, as manifested through the IPOs of Banco *Compartamos* in Mexico (2007) and SKS Microfinance (2010). However, there is less doubt about the potential for profit from offering microinsurance products.

Popular awareness may have some drawbacks for the deepening of microinsurance markets. Whereas microcredit developed experimentally in an environment where non-regulated, non-profit microfinance institutions (MFIs) shared business models and data openly, microinsurance products are mostly designed by regulated, private, for-profit firms, where information is proprietary and profits are expected. Additionally, making mistakes has higher stakes: an unpaid microloan negatively affects an MFIs' sustainability, but an improperly capitalized microinsurance scheme has adverse impacts on vulnerable clients and can jeopardize the future of the entire microinsurance in the country. Developing sustainable, sound microinsurance products requires greater expertise and investment in data than designing a microloan. Since this knowledge is concentrated in the private insurance industry, fostering the deepening of microinsurance markets will require partnerships and data sharing in addition to more support for professional development programs of staff and agents in the region.

establish parameters that undermine or make the adopted business model unfeasible. While this may serve to encourage innovation in countries with generally stable, liberal market policies, such as Colombia, it may deter actors from entering in countries where reforms can occur suddenly without consultation of the insurance industry or where abrupt policy reversals are common. On the other hand, a regime that does not monitor microinsurance developments may run the risk of operators engaging in fraudulent activities, consumer abuse, and regulatory arbitrage, which contribute to financial crises and a loss of consumer confidence in insurance carriers. In other cases, the insurance industry may be very conservative and the ex-ante

establishment of regulations may not guarantee the development of a microinsurance market. In short, the regulators may not craft appropriate regulations in the absence of solid information and thereby may stifle an infant industry based on ill-founded assumptions. Thus, given the dynamic nature of the marketplace and the glaring lack of information, an intermediate position wherein

both the industry and the regulators work closely together in a coordinated process of discovery but adhering to some common guiding principles, with regulators following the industry's lead, monitoring developments closely, and shaping appropriate regulations for the incipient market segment seems to be the most prudent and pragmatic.

Because of the fundamental informational asymmetries that are at play in the microinsurance market, certain regulatory challenges are particularly thorny and require special attention in creating an enabling environment:

- **Formalizing the informal:** Regulators face challenges in balancing the need for services with ensuring that these services are valuable and can fulfill the promises made to customers.⁴
- **Facilitating outreach and innovation by formal players:** Governments are able to directly and indirectly encourage innovation and action, and often must serve a key coordinating role for all stakeholders. The insurance supervisor has an important role to play in understanding and accommodating the need for product innovation in the microinsurance line on the part of insurers and reinsurers without sacrificing safety and soundness. This role is especially critical in the early phases, when positive demonstration effects are needed to develop the line and to convince a larger number of insurers that with proper business models in place, microinsurance has the potential to generate significant revenues, and to provide incentives for information sharing (See Box).

In general, a prudent regulatory framework for microinsurance should focus on the following general principles outlined by CENFRI:

1. Regulators should be proactive, taking steps to develop the microinsurance market.
2. Any microinsurance policy should be part of broader financial inclusion goals and a pro-poor growth strategy. Microinsurance is not a panacea for poverty alleviation.
3. Microinsurance product categories should be clearly defined.

⁴ Access to Insurance Policy Seminar for Regulators and Supervisors: Highlight Summary.

4. Regulation should be tailored to the peculiarities of the microinsurance market (See Table 1).
5. Multiple entities should be permitted to underwrite microinsurance.
6. Informal insurance providers should be provided a path to formalization.
7. Flexible regimes for microinsurance distribution and sales should be allowed.
8. Consumer protection and transparency should be promoted.
9. Market developments should be monitored and responses crafted.
10. Internal capacity to support better supervision should be developed.

Despite the growth potential of microinsurance, for microfinance institutions and commercial insurers, it is a new business venture that represents a very small portion of revenues and profits relative to traditional primary business. At the same time, it also requires investment, innovation in product design and distribution, and learning how to deal with a new client base.

The central government has a substantial role to play in facilitating the development of the microinsurance industry and lowering some of the costs and barriers that private insurance companies will confront as they enter this segment. Public policy can play a positive role in four broad areas:

- gathering socioeconomic survey data and facilitating access to it by third parties
- promoting the training of actuaries and other insurance industry staff
- promoting financial literacy, especially among school-aged children
- facilitating investment and development of the telecommunications industry through adequate regulation and spurring information and communication technology innovation through research and smart subsidies.

Each of these areas represents public goods or quasi-public goods. There is a dearth of accurate and reliable information on the characteristics of the poor, their preferences, and their level of risk aversion. Comprehensive surveys are costly to undertake, and the absence of such data acts as a major disincentive to any prospective “first mover.” Likewise, better training of insurance sector professionals, especially actuaries, risk modelers, and non-traditional agents, is essential to help design and deliver products for the lower-income segment of the population. Few universities in Latin America offer a major in actuary sciences. One of the main obstacles to scaling up

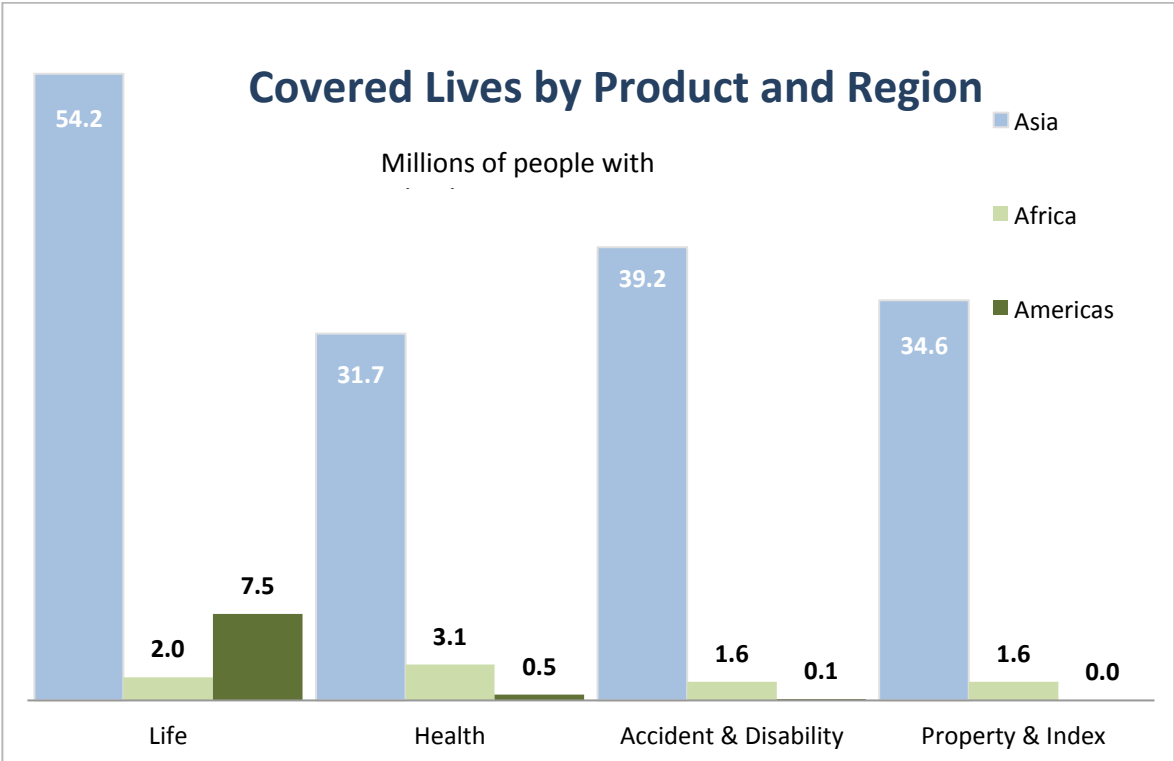
microinsurance is the general misunderstanding of what insurance is and cognitive errors in the perception of risk. Therefore, sales staff will have to know how to effectively educate and make low-income clients more financially literate. Finally, lower-cost and more widespread connectivity and experimentation in the development of mobile platforms to deliver financial services to the poor promise to dramatically lower transaction costs and make these services more affordable.

7.3 Current Landscape in Latin America

In most areas of microinsurance, Latin America trails behind Asia and Africa in terms of covered lives in absolute terms.⁵ According to the Microinsurance Center's 2007 Landscape study on microinsurance, microinsurance covered around 8 million lives.

⁵ In relative terms, if the number of covered lives were taken as percentage of total regional population, LAC obviously does better because the total population of the region is much smaller, 589 million vs. 4.1 billion for Asia and 994.5 million for Africa. However, the point is the degree of market development. In Asia, far more insurance companies are active, more regulatory reforms have occurred or are being considered in a larger number of countries, and there is a greater variety of agents and non-traditional actors in the distribution channels. Most tellingly, community-based organizations and mutuals are more actively involved in health insurance provision, whereas in LAC, private health products targeting the lower-income brackets are more limited and a greater percentage of the working poor are covered by public sector social protection schemes. Source for population estimates is http://en.wikipedia.org/wiki/World_population

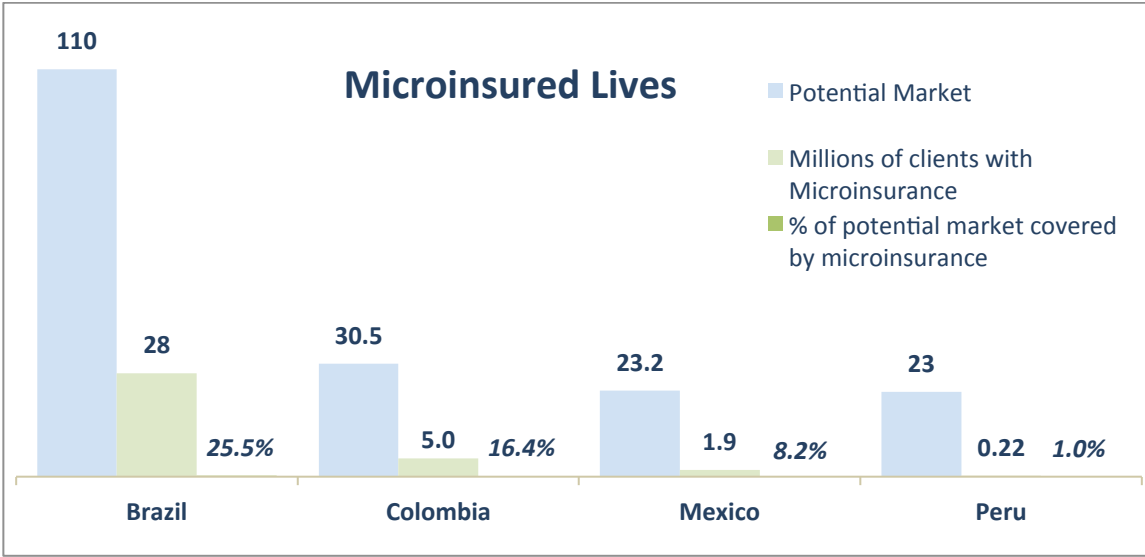
Figure 1. Covered Lives by Product and Region



Source: Microinsurance Center, 2007. In the figure, ‘Americas’ means Latin America and the Caribbean.

However, these numbers appear to underestimate the current market for microinsurance in the four countries studied, where microinsurance is estimated to cover over 35 million lives. In practice, microinsurance is defined as small-value policies with low premiums that suit to the needs of low- and moderate-income people. In most countries the typical microinsurance products are credit life, life, and funeral, all of which have premiums of less than US\$100 per year. This, however, is just a fraction of the potential market in these countries, which, taken together, would total over 185 million clients.

Figure 2. Microinsured Lives



Source: Estimates based on 2009 data from SUSEP, FASECOLDA, CNSF, SBS.

8. Country Cases

8.1 Brazil

The potential market for microinsurance in Brazil is immense in absolute numbers. SUSEP (the Private Insurance Superintendent) estimates that around 100-120 million people in Brazil, or around half the Brazilian population, could be served by microinsurance. Total insurance premiums reached 3 percent penetration (premium-to-GDP ratio), which is relatively high for the region, whereas total insurance premiums reached around US\$39 billion in the year ending June 2009, which corresponds to an average yearly growth rate of 14 percent between 1995 and 2008. Nevertheless, only 23-33 million Brazilians are covered by any microinsurance, illustrating the large growth potential in this market. Microinsurance products can range from extended appliance warranties to credit life insurance, and premiums range from about US\$1 to US\$25 a month.

Most of the microinsurance market in Brazil is urban, as the country has an 85 percent urbanization rate. While reaching the rural poor remains a challenge due to dispersion, urbanization makes offering microinsurance easier due to higher densities in a given area. Those with microinsurance generally access policies provided by large commercial insurers, usually mass distribution retailers. Commercial insurers use mass-market distribution channels like banks and retailers to reach low-income customers.

There are four types of players in the low-income market in Brazil: banks, large independent insurers, small insurers, and informal funeral parlors and cemeteries. The four largest insurance providers in Brazil are Bradesco, Itaú, Brazil Prev, Porto Seguro, with bank-led groups such as Bradesco and Itau Unibanco dominating the low-income market. Other actors, such as MAPFRE, AIG, AON QBE, and SINAF Zurich, also participate, offering products for low-income individuals. Seven main distribution channels for insurance have evolved in Brazil: banking, database selling, retail, credit agent, common bond, funeral homes and cemeteries, and door-to-door sales.

Most of the gains in microinsurance in Brazil have been made over the last eight years. During this time, Brazilian insurance supervisors have been active in researching and supporting microinsurance rollout. Brazil provides an encouraging model for dynamic regulation that enables the development of new distribution models and products. Several government agencies oversee the private insurance industry in Brazil, with the Brazilian Insurance Code delegating regulation power on detailed aspects of insurance provision to CNSP (National Private Insurance Council) and SUSEP, which are able to adjust regulation in response to market developments.⁶ This has been instrumental in leading the expansion of microinsurance in Brazil.

Additionally, insurance regulators have been proactive in the development of microinsurance. Brazilian insurance regulators are active in international collaboration efforts on microinsurance, participating in working groups such as the IAIS-Microinsurance Network Joint Working Group on Microinsurance (JWG-MI) since its inception in 2006. Brazilian regulators also created the SUSEP Microinsurance Consultative Commission in order to facilitate the participation of public and private sector actors in the creation of an enabling regulatory environment. Public actors include SUSEP, the Ministry of Finance, the Central Bank, and the Ministry of Social Development, while private participants include the Insurers Federation, Brokers Federation, and the National Insurance School (FUNENSEG). The Commission is supported by the SUSEP Working Group on Microinsurance, comprising actuaries, statisticians, on-site and off-site supervision departments, etc. In 2010, SUSEP undertook additional microinsurance projects focusing on further defining parameters for

⁶ CENFRI Brazil study.

microinsurance products, such as contract terms, maximum benefit values, time limits on claims payments, and simplified requirements for microinsurance product approval. It has also partnered with other stakeholder organizations to allow banking correspondents to sell microinsurance.⁷ Such a measure could translate into an immense distribution network, as over 130,000 correspondents exist across Brazil, even in remote municipalities.

8.1.1. Key Features of the Brazilian Regulatory Environment

- **Definition of microinsurance:** Brazil makes a distinction between microinsurance and popular insurance, defining microinsurance as being targeted to low-income individuals rather than simply being low-value products:
 - In Brazil the term “popular insurance” is used to denote small-value, mass-scale products. However, popular is not the same as microinsurance since microinsurance targets low-income households whereas popular insurance is for all kind of customers and merely means insurance of small amounts.⁸
 - Brazil defines microinsurance as follows: Microinsurance is the insurance protection provided by licensed entities within the country against specific risks, which aims fundamentally to preserve the socioeconomic, personal, and family situation of the low-income population by means of premium payments which are proportional to the probability and cost of risks involved, in accordance with the legislation and globally accepted insurance principles.
 - Unregulated funeral insurance has been excluded from the definition of microinsurance and redefined as a prepayment of services. This is in spite of the fact that funeral insurance accounts for over 50 percent of the microinsurance market.
- **Active, evolving regulation:** The Brazilian Microinsurance Commission authored a 2008 Microinsurance Bill introduced to Congress that has proposed a number of reforms. These include: specialized microinsurance firms through

⁷ SUSEP presentation Basel 2010.

⁸ SUSEP website.

specific licenses authorizing microinsurance sales; the creation of microinsurance correspondents open to groups such as churches and businesses; the creation of a microinsurance broker regime; the creation of a special tax regime for microinsurance operations; and tax breaks for employers who contract insurance for their employees. The bill is currently working its way through committees in the Chamber of Deputies before the National Congress can pass it.

- **Support for research** on technical and operational aspects of microinsurance in Brazil through FUNENSEG, the national insurance school. To date, extensive studies have been conducted on subjects ranging from the potential market for microinsurance in Brazil to business plan modeling of a microinsurance unit. Work has even been done to build actuarial tables in Brazil. These studies are housed at FUNENSEG's Microinsurance Research Programme website: <http://www.funenseg.org.br/microinsurance.php>.
- **Financial literacy:** SUSEP has undertaken partnerships with CNSeg, an insurance industry confederation, and members of the National Council for Financial Education to support financial education programs. For instance, *Estou Seguro* is a consumer education program launched in 2010 by CNSeg with funding from the ILO's Microinsurance Innovation Facility to educate and inform favela dwellers in Rio de Janeiro, using innovative media such as street performances and radio programming, among others.

8.1.2. Opportunities for Action

- **Pathway to formalization:** developing a plan to move informal providers of microinsurance towards formalization and supervision.

A 2010 CENFRI study on Brazil's microinsurance market, while lauding the regulatory flexibility to adjust regulation, cited the following impediments to the expansion of microinsurance in Brazil:

- the high investment needed discourages small insurers
- heavy tax burden
- over 90 regulations governing insurance, though many of these facilitate different and new distribution channels
- health insurance restrictions, which impede health coverage.

The Brazilian government is taking steps to address some of these concerns, but some political considerations have prevented advancement on issues such as supervision of the mostly informal market for funeral insurance.

Table 2. Microinsurance in Brazil at a Glance

Brazil at a Glance	Estimated as of 2009
Population	194 million
Potential Market	100-120 million*
Lives Covered by Microinsurance	22-33 million
Regulatory Framework	Microinsurance defined, Microinsurance Bill authored in 2008 and pending approval in legislature
Prominent Distribution Channels	Banks, funeral homes
Prominent Insurers Present	MAPFRE, AIG, AON, Zurich

*Authors' estimations based on lower-income quintiles.

8.2 Colombia⁹

The Colombian microinsurance market has experienced robust development through increased competition and the search for new markets brought on by financial liberalization in the 1990s. Additionally, the government has actively encouraged the expansion of microfinance services through Banca de las Oportunidades, an outgrowth of its financial inclusion policy implemented in 2006. Colombian cooperative insurers dominate the playing field, and the development of microfinance has allowed coverage to reach the base of the pyramid, but in general insurance coverage in the country remains low. Total insurance premiums reached 2.3 percent market penetration (premiums-to-GDP) in 2009.¹⁰

Estimates suggest that up to 19 percent of Colombian adults are microinsurance clients. At least half of the microinsurance market is informal, potentially reaching up to 3 million clients, whereas approximately 2.74 million formal microinsurance policies currently exist. Two insurance cooperatives, La Equidad and Solidaria, stand out as the largest players among the 17 insurers that provide microinsurance products. While they dominate the market, cooperatives still have scope to expand to their current customer base, as the 3.7 million cooperative members far outnumber the 1.7 million

⁹ Adapted heavily from Colombia Case Study Making insurance markets work for the poor.

¹⁰ Source: Swiss Re Sigma No 2/2010.

microinsurance policyholder members. Cooperatives account for 62 percent of the formal microinsurance market.

Other than cooperatives, a few other distribution channels exist for microinsurance, such as funeral parlors in the case of funeral insurance. Unlike in other countries, most microinsurance policies are not distributed through traditional broker-agent channels. While compulsory credit life insurance makes up only 27 percent of all microinsurance clients, some microcredit NGOs do require credit life, serving as another channel. Emerging channels include supermarkets, direct sales, and distribution through utilities.

Private insurers offering microinsurance products in Colombia include Allianz, MAPFRE, and SURA. Through its Colombian subsidiary Colseguros, Allianz has pioneered personal accident and prepackaged insurance policies offered through retail giant Carrefour. The sales process is designed to take under 30 seconds and occurs at checkout. Since its launch in November 2007, over 639,000 policies have been sold. Another microinsurance initiative in Colombia is Bancoldex's Futurex Micro-entrepreneur Insurance program, which offers life and damage microinsurance products through partnerships with SURA and MAPFRE, respectively. SURA has also partnered with Comfama, a local social enterprise, to offer life, health, and unemployment insurance.

8.2.1 Key Features of the Colombian Regulatory Environment

In general, the environment is very open in order to promote innovation strategies and the expansion of coverage, while maintaining uniform and somewhat burdensome regulatory standards. For instance, capital requirements are not adjusted for the size of institutions. While regulation requires that new products be submitted to the Financial Superintendence, it does not require authorization for the launch of new products. Other features include:

- **No microinsurance-specific regulation:** Colombia has promoted financial inclusion policies, but no regulation for microinsurance or microfinance in general. Indeed, there is no dedicated insurance law in Colombia; instead, it falls under the jurisdiction of the Fundamental Law of the Financial System, and the Financial Superintendence (FS) acts as insurance regulator and supervisor.

- **Standard prudential and institutional regulation:** public corporations and cooperatives are eligible to register as insurers but face the same upfront capital requirements (and technical capital requirements, depending on the type of insurance product offered). No adjustments are made for institutional type or size, which creates challenges for smaller or community-based entities that wish to offer microinsurance products.
- **Defined insurers:** insurance companies, insurance cooperatives, and reinsurance companies are defined as insurance entities by the FLFS.
- **Product regulation:** insurers submit new products to the FS, but only individual life insurance policies require strict product demarcation.
- **Eased intermediation and underwriting restrictions:** insurance may be underwritten directly with the insurance company, insurance agencies, insurance agents, or insurance brokers. Insurance entities can accept risks directly without the intervention of intermediaries.
- **Distribution:** directly by the insurance company or through agents, agencies, or brokers.
- **Banca de las Oportunidades:** focuses on the expansion of financial services to microentrepreneurs.
- **Non-bank correspondents:** allowed to serve as distribution intermediaries and to collect insurance premiums, but cannot sell insurance policies.

One area of concern with respect to loose supervision in Colombia, however, is the past proliferation of investment pyramid schemes that affected significant portions of the Colombian population, illustrating a potential susceptibility to unstable informal insurance schemes. As in Brazil, funeral insurance sold by funeral homes is currently unregulated and unsupervised. Consumer protection is important in microinsurance, as clients must trust that insurance policies they have paid into will pay out when a risk event occurs; non-payment has strong demonstration effects and will discourage local development of microinsurance markets. For most insurance types other than funeral, capital requirements are fairly strict and do not easily allow for bottom-up initiatives, but as microinsurance becomes popularized, it will become increasingly important to define it clearly in order to prevent confusion and vulnerability to scams.

8.2.2. Opportunities for Action

- **Prudential controls:** Prudential requirements are currently standard regardless of institutional type and constitute a barrier to entry. This means that a large investment is needed to enter this market. Creating tiered capital requirements could potentially encourage smaller institutions to enter the market and generate more competition and innovation.
- **Consumer education and protection:** low-income individuals still have little awareness about the types of risks that remain uncovered in their lives and the way that microinsurance can help mitigate these risks.
- **Expansion:** expanding who can provide formal microinsurance while increasing the capacity for monitoring the performance of microinsurance products and providers is critical for market development.
- **Pathway to formalization:** informal microinsurance makes up over half the microinsurance market in Colombia. Existing providers should be offered a pathway to become formal microinsurance providers.
- **Clarity:** transparent guidelines for product authorization should be established.
- **Synergy:** microinsurance expansion should be made a pillar goal of Banca de las Oportunidades, and data gathering on microinsurance premiums should be expanded.

Table 3. Microinsurance in Colombia at a Glance

Colombia at a Glance	Estimated as of 2009
Population	46 million
Potential Market	30.5 million*
Lives Covered by Microinsurance	5 million
Regulatory Framework	No microinsurance definition; financial inclusion promotion policy via Banca de las Oportunidades
Prominent Distribution Channels	Cooperatives
Prominent Insurers Present	Allianz, MAPFRE, SURA

*Authors' estimations based on lower-income quintiles.

8.3 Mexico

Mexico has already had some demonstrated success in microinsurance, with all insurance achieving 2 percent market penetration based on premiums to GDP as of 2009. Most of this penetration has been in urban areas, especially the Federal District. Microinsurance premiums totaled over US\$11 million in 2009, with an average growth rate of 21.5 percent from 2007 to 2009.¹¹ This has translated into over 1.9 million covered lives, with life insurance dominating the market. As of April 2010, the microinsurance portfolio in Mexico consisted of 4.4 million policies, of which 93.1 percent are life, 2.5 percent injury and 2.4 percent personal accidents. Policies are scaled for very low incomes, with monthly premiums averaging around US\$0.50 for average insured sums of around US\$1,800.

More pilots continue to emerge. While some 100 insurance companies operate in Mexico, just over 30 companies offer microinsurance. The companies with the most sales are Banamex, MAPFRE, Argos, Azteca, Atlas, GIR, Zurich, and Metropolitana. Many projects involve partnerships. For example, the national program for financing microentrepreneurs, Pronafim, and the insurance association AMIS launched a joint venture to provide coverage for 250,000 low-income earners by the end of 2010.

Most microinsurance in Mexico has been linked to the provision of credit. One success story in reaching the base of the pyramid in Mexico is Banco Compartamos, which has offered life insurance to its microcredit customers since 2004. From 2004-2009 it was partnered with Seguros Banamex, and since 2010 it has been partnered with MAPFRE to offer three life insurance products, and has sold over one million policies. It aims to expand access into health and weather insurance. Banco Compartamos' life offering has a number of salient features: it is 100 percent voluntary life insurance (no credit life), there are no age limits, no exclusions, no required medical exams or questionnaires, and claims are paid within 48 hours. Banco Compartamos has chosen the partner-agent model for provision, and although it has had some success with this delivery channel and client satisfaction is high, the microinsurance business line represents only 1 percent of Compartamos' profit. Proper incentives are necessary to encourage sales staff to promote microinsurance products. Durable goods retailer Electra,

¹¹ Source: CNSF.

which has sold over two million policies with Seguros Azteca of the same holding group, provides another delivery model in Mexico. Seguros Azteca also delivers microinsurance policies through consumer finance Banco Azteca locations.

8.3.1. Key Features of the Mexican Regulatory Environment

The National Commission of Insurance and Securities (CNSF) is in charge of overseeing insurance and microinsurance in the Mexican market, and has been active in promoting the expansion of insurance protection to the poor. Mexico passed legislation circular **CNSF S-8.1** in 2008, which issued the following directives for microinsurance:

- Defined microinsurance as insurance products aimed at promoting access to insurance protection for low-income individuals using low-cost distribution and operation methods.
- Limits insured sums for individual policies; limits are placed at four times the annual minimum wage in the Federal District, with yearly adjustments. For group policies, the insured sum cannot be higher than three times the annual minimum wage.
- Limits the use of deductibles, copayments, exemptions, dividends and exclusions.
- Grace period for premium payments is set at 30 days.
- Requires a simplified process for claims processing and mandates claims be paid within five days of filing.

8.3.2 Opportunities for Action:

- **Consumer education:** with the increased offering of products through consumer finance institutions like Banco Azteca, it is important that clients understand their risks while not overspending on unnecessary coverage.

Table 4. Microinsurance in Mexico at a Glance

Mexico at a Glance	Estimated as of 2009
Population	107 million
Potential Market	23.2 million*
Lives Covered by Microinsurance	1.9 million
Regulatory Framework	Active microinsurance regulation passed in 2008; microinsurance defined
Prominent Distribution Channels	Microcredit and consumer finance
Prominent Insurers Present	MAPFRE, Seguros Azteca, Zurich

*Authors' estimations based on lower-income quintiles.

8.4 Peru

According to the Superintendence of Banking and Insurance of Peru (SBS), all insurance products in the country have achieved a 1.16 percent market penetration based on the premiums-to-GDP ratio. As of March 2010, nine insurance companies offered 68 microinsurance products in Peru. Since 2007, these products have covered around 218,400 microinsurance clients, with an average premium of around S/.3 or US\$0.10. The SBS does not appear to include credit life insurance as part of its monitoring of microinsurance.¹² Some of the main commercial companies making microinsurance offerings are: La Positiva, Invita, ACE, Pacífico Vida, La Positiva Vida y Protecta.

In terms of products, personal accidents dominated the market, with 51.5 percent of product registrations and 41.3 percent of the insured. Other products included individual life insurance, group life, and long-term individual life insurance. The Peruvian market is fairly concentrated in a few types of products, with 90 percent of the insured and 95 percent of premiums falling under one of seven registered products (individual life). Many of the products registered with the SBS do not have any recorded sales, while other products have insured fewer than 1,000 clients. Uptake has been low in Peru, and while the new regulation implemented in 2009 should increase market entry, this has not yet been observed. Indeed, La Positiva eliminated six types of microinsurance policies at the end of 2009, though it added a new type of personal accident microinsurance in 2010.

¹² 2007's Landscape paper says Peru has 3.3 million people covered by microinsurance, mostly from one credit institution mandating credit life insurance

8.4.1 Key Features of Peruvian Regulatory Environment

Supervision of the insurance market in Peru is provided by the SBS, which has undertaken active microinsurance regulation that was first established in 2007 (SBS N° 215-2007). The government undertook reforms with the aim of expanding access to insurance services for underserved groups. Reforms were made to the existing regulation in 2009, which redefined microinsurance as insurance that provides protection for losses due to human or economic risks to low-income populations according to the risk profile and protection needs. Peruvian rules on microinsurance have the following features, including several that emphasize consumer protection:

- indefinite policy periods, without required annual renewal
- simplified application procedures and contractual language
- general and minimized exclusions
- no deductibles, copayments, or exemptions
- claims payments to be made within 10 days of filing
- customer complaints for non-payment of claims to be resolved within 15 days
- only information relating to the loss is required for claims
- individual or group coverage

In terms of supervision of microinsurance, regulation dictates:

- Microinsurance providers and intermediaries must register with and be authorized by the SBS.
- Product models must be submitted for review before commercialization.
- Trimester reporting requirements of insurance portfolio: number of clients, premium volume, and claims made.
- Insurer retains risk and responsibility regardless of contracted distribution type.
- Tiered prudential requirements.
- Prepaid medical services: Clinics and other health service companies must be registered with the Superintendence of Health Service Providers (SEPS) to offer services.

8.4.2 Areas for Improvement

The Peruvian market for microinsurance has grown more slowly than in countries where microfinance is less advanced. This may be due in part to Peru's regulatory environment,

which began as fairly restrictive, but with reforms undertaken in 2009 has opened up to allow for more innovation. The SBS aims to further revise regulation on commercialization in order to allow for alternative mass distribution models.

- **Data collection and analysis:** additional indicators and benchmarks are needed to assess the impact of microinsurance strategies. Regulators should take a closer look at why consumer uptake has been low. Value to clients may be low, or the distribution models may not be geographically or culturally accessible enough to clients. Some of the products seem to be designed and priced in an ad hoc manner due to lack of sufficient market research data and actuarial analysis.
- **Consumer protection and financial education:** the SBS can lead in incorporating these programs into its microinsurance expansion strategy. Informing the public of the benefits of microinsurance might also increase uptake.

Table 5. Microinsurance in Peru at a Glance

Peru at a Glance	Estimated as of 2009
Population	29 million
Potential Market	23 million*
Lives Covered by Microinsurance	< 1 million
Regulatory Framework	First microinsurance law in 2007, reformed in 2009
Prominent Distribution Channels	NGOs, MFIs, Banks
Prominent Insurers Present	La Positiva, Invita, ACE, Pacífico Vida

*Authors' estimations based on lower-income quintiles.

9. Outlook

The experiences in Brazil, Colombia, Mexico, and Peru illustrate potential pathways for regulatory intervention and promotion of microinsurance. Brazil, Mexico, and Peru have active, defined regulatory and microinsurance promotion policies, while Colombia has a broader financial inclusion approach and an innovative public sector initiative: Banca de las Oportunidades. Whereas Brazil, Mexico, and Colombia have millions of active microinsurance customers, the Peruvian market is still minute, despite an array of product offerings. Since the commercial appetite for microinsurance appears to be strong in Peru, more work needs to be done to stimulate demand.

10. Policy Recommendations

Microinsurance programs have the potential to benefit society as a whole by preventing marginalized groups from slipping further into poverty. Governments interested in supporting microinsurance development face a number of challenges. The findings of this study suggest that the following recommendations should be considered:

- **Data collection and knowledge management**
 - Improve the capacity to collect statistical and actuarial information appropriate for designing and pricing microinsurance contracts. Two of the most affected lines are health, where the lack of reliable morbidity and mortality tables is a serious hindrance, and agriculture, where lack of reliable weather data and well distributed automatic weather stations to design and monitor contracts contribute to higher premiums and elevated basis risk. Health is the microinsurance product in greatest demand, and agriculture is an intrinsically risky sector, with risk levels rising as climate change progresses.
 - Rigorously evaluate and disseminate successful microinsurance pilot cases so as to encourage and guide others. Current research in microinsurance is spotty and superficial. One major impediment is that private insurers are hesitant to release cost and profitability data.
 - Support the creation of a data-reporting portal for microinsurance, similar to the Microfinance Information Exchange (MIX) that would include both financial and social performance indicators.
- **Capacity building**
 - Support investment in the education and training of insurance and risk modeling professionals in general and those specialized in microinsurance in particular. In many small Latin American and Caribbean countries, there is a dearth of actuaries, statisticians, and weather scientists.
 - Support consumer education and literacy programs to raise consumer awareness about the value of insuring themselves against risk.
 - Support the administering of surveys, data gathering, and sharing of statistical information among public sector agencies and between public

sector agencies and private companies at little or no cost, which would permit the design of more empirically based products.

- Create public-private partnerships to promote microinsurance in a systematic and coordinated fashion. Key actors would vary by insurance line but would include relevant government ministries (Health, Agriculture, Finance, Economy, Social Welfare, Labor, National Statistical Institutes/Bureaus, and National Meteorological Services), private insurance companies, international reinsurance companies, regulatory authorities, and representatives from business and civic sectors.

- **Investment finance**

- Provide direct equity investments, loans, and guarantees to firms offering microinsurance products through the private sector arms of the IDB Group—the Inter-American Investment Corporation (IIC) and the Multilateral Investment Fund (MIF).
- Providing grant financing for pilot projects and the use of information communication technology.
- Provide loans and grants to national governments for investment in infrastructure, the establishment and/or continuance of periodic surveys, purchase and maintenance of weather stations, construction and maintenance of data portals, adoption of information and communication technology to reduce operational and administrative costs throughout the insurance value chain, priming the reinsurance market, etc.

- **Advisory services for regulatory reform, distribution, and ICT innovation**

- Assist insurance regulatory authorities in defining microinsurance as a separate entity from standard insurance.
- Assist in establishing appropriate, tiered prudential regulation in order to differentiate between community-based programs and commercial insurers where tax regimes differ.
- Set standards for alternative, innovative distribution channels, such as allowing for correspondents and improved payment systems.

- Revise consumer protection norms to protect the public from unscrupulous insurance practices.
- Encourage better supervisory practices and the benchmarking of the industry.
- Encourage transparency and competition.
- Assist in the development of new meso-level insurance products that better suit the needs of client segments and have better chances for sustainability and uptake, for example, portfolio insurance for financial institutions exposed to agriculture, as opposed to the sole promotion of agricultural index insurance products that suffer from basis risk or traditional multiple-peril insurance, which implies high fiscal costs, or catastrophic products aimed at governments as policy holders.

11. Conclusions

The microinsurance market in Latin America is still in its infancy. Its expansion will require a number of concerted actions by stakeholders. In addition to issues affecting demand and supply discussed above, other key drivers include stable macroeconomic and trade conditions that will allow for sustained income growth. This growth, however, should be pro-poor and socially inclusive so as to permit lower-income quintiles to have more disposable income, which will increase effective demand for insurance products. The role of the public sector will be critical, and some balance between the poles of purely private sector-led and purely publicly intervened systems will have to be found. The development of the industry in a purely private sector-led environment will be slow due to the formidable obstacles identified in the paper—lack of information, lack of financial literacy, etc. On the other hand, a publicly intervened system may tend to be expensive to maintain and inefficient.

The success of microinsurance hinges on the ability to generate sufficient demand for products that provide tangible value to an appropriately targeted clientele. For example, credit life products tend to be mandatory, and most of the indemnity benefit goes to the lending institutions. In contrast, voluntary life policies that make a death payment to a survivor stipulate payment of educational expenses for a certain period or

up to a limit are much preferred from the client's standpoint. Developing products that have a value proposition, i.e., providing a coverage benefit that is affordable, simple to understand, and features flexible and convenient payment mechanisms, will require more empirical knowledge of the target segment in order to design and better bundle products; more trial and error; and a greater appreciation by regulators of the degree of development of the microinsurance industry in their respective jurisdictions. Top-down designs and products that are not well distributed in communities where the target population lives are not likely to be well received, as evidenced by the experience in Peru. By contrast, Colombia has a very dynamic market with high regulatory risks. Brazil and Mexico have made inroads in scaling up the selling of life and funeral products, which can be seen as low-hanging fruit. The other product lines, property and casualty, agriculture, and health, are still underdeveloped.

As the cases of Brazil, Colombia, Mexico, and Peru illustrate, regulation, product offerings, dominant distribution channels, and uptake can all follow very different patterns. Nevertheless, some common points and needs emerge. More data gathering and surveying of clients; modifying product offering accordingly; innovating new cost-cutting technologies and delivery channels; setting strategic priorities for market development, and designing appropriate incentives for market actors continue to be needed.

Ultimately, as clients gain a greater understanding of the protective benefits of microinsurance, government intervention should shift from market stimulation to supervision. The IDB and other multilateral institutions can assist in accelerating the pace of microinsurance market development through the judicious marshalling of available financing instruments—technical assistance to the stakeholders and funding for research, regulatory reform, pilot initiatives, information technology adoption, and infrastructure investments; promoting public-private partnerships; seeking to establish common performance indicators and transparency in the industry; educating the target clientele, and directly financing private insurance companies to expand in this area. By doing so, multilateral agencies can help ensure that the poor have access to valuable risk-management tools to help protect their assets and livelihoods.

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