

**ROUNDTABLE ON MICROINSURANCE SERVICES
IN THE INFORMAL ECONOMY:
THE ROLE OF MICROFINANCE INSTITUTIONS**

Hosted by

*International Coalition on Women and Credit and
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This report was written by Alessandra Del Conte. Responsible for the report are Celina Kawas and Marla Gitterman, International Coalition on Women and Credit, and Annette Krauss, Special Unit for Microfinance of UNCDF.

TABLE OF CONTENTS

LIST OF PARTICIPANTS	1
INTRODUCTION	2
Background	2
Objectives	2
I. FRAMEWORK	4
II. EXPERIENCES IN THE PROVISION OF INSURANCE FOR THE POOR.....	7
A. Life/Disability Insurance	7
B. Health Insurance	10
C. Lessons and Challenges	12
III. NETWORKING ACTIVITIES.....	16
A. Research: Microenterprise Best Practices (MBP)	16
B. Networks: MicroSave-Africa, WIEGO and STEP-ILO	17
IV. CONCLUSION	21
ANNEX 1: ANNOTATED AGENDA	23
ANNEX 2: REFERENCE LIST	25
ANNEX 3: MICROINSURANCE CENTRE QUESTIONNAIRE	27
ANNEX 4: CONTACT INFORMATION	30

LIST OF PARTICIPANTS

Ms. Gloria Almeyda, World Council of Credit Unions
Mr. Warren Brown, *Calmeadow*
Mr. Till Bruett, *FINCA International*
Ms. Deena Burjorjee, *Special Unit for Microfinance/UNCDF*
Ms. Sue Carey, *Canadian Cooperative Action/China*
Ms. Martha Chen, *Harvard University*
Ms. Heather Clark, *Special Unit for Microfinance/UNCDF*
Ms. Alessandra Del Conte, *Consultant*
Mr. Hans Dellien, *Women's World Banking*
Ms. Gretel Figueroa, *Pro Mujer*
Ms. Marla J. Gitterman, *International Coalition on Women and Credit*
Ms. Julia Greenburg, *American Jewish World Services*
Mr. Vijay Kalavakonda, *The World Bank, Banking and Financial Institutions Department*
Ms. Celina Kawas, *International Coalition on Women and Credit*
Ms. Katie Klingensmith, *ACCION International*
Ms. Annette Krauss, *Special Unit for Microfinance/UNCDF*
Mr. Glenn C. Moller, *Communities Habitat Finance*
Mr. Manuel Montez, *Ford Foundation*
Mr. Jonathan Morduch, *Princeton University*
Ms. Inez E. Murray, *Women's World Banking*
Ms. Lynne Patterson, *Pro Mujer*
Ms. Irene Philippi, *Women's World Banking*
Mr. Peter Rademaker, *ILO-Social Finance Unit*
Mr. Terry Ratigan, *CARE Mozambique*
Mr. Miguel Ringvald, *Consultant*
Mr. Jim Roth, *ILO- Social Finance Unit*
Ms. Louise M. Schneider, *Women's World Banking*
Mr. Paul Bennet Siegel, *The World Bank, Social Protection Unit*
Mr. Marc Socquet, *ILO-STEP*
Ms. Kathleen Speake, *Canadian Cooperative Action-Canada*
Ms. Nhu-An Tran, *Development Alternatives, Inc.*

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INTRODUCTION

On July 21, 2000, the International Coalition on Women and Credit and the Special Unit for Microfinance (SUM) of the UNCDF hosted a roundtable discussion at the Ford Foundation in New York on Microinsurance Services in the Informal Economy: the Role of Microfinance Institutions. The 31 participants included practitioners and supporters of microfinance institutions (MFIs), as well as academics, representatives of multilateral organizations and global networks.

BACKGROUND

The roundtable discussion was a follow up to the Social Protection Working Group of the WIEGO Network (Women in the Informal Employment: Globalizing and Organizing), which took place at WIEGO's Second Annual Conference in Boston, in May 2000. Marla Gitterman of the Coalition and Annette Krauss from the Special Unit for Microfinance participated in the WIEGO Social Protection Working Group. The Working Group discussed approaches on how to reduce the vulnerability of low income people through social protection. One of the approaches, complementary to others, is to deliver and/or facilitate microinsurance services through microfinance institutions.

From 1998-1999, the Coalition facilitated the Women and Microenterprise Pilot Initiative in three countries in Latin America. Among the main concerns raised by the 350 poor women entrepreneur participants was the need for social protection, including social security and medical and disability insurance. The Coalition is interested in creating linkages, and in collaborating with and systematizing ongoing efforts to develop microfinance schemes that address the needs and interests of low income women throughout their lifecycle. The Special Unit for Microfinance promotes sustainable microfinance institutions and has microinsurance as one of the topics in its Learning Agenda.

OBJECTIVES

The overall objective of the roundtable was to create a discussion channel for microfinance providers and supporters to learn about specific experiences and strategies in the provision of microinsurance for low income entrepreneurs, particularly women.

Specific objectives were to:

- share experiences on the delivery of microinsurance products;
- share information on initiatives of global networks promoting research and pilot projects on microinsurance;
- discuss the role of MFIs in providing insurance, such as life, disability, asset, health, and pensions; and
- systematize the key issues coming out of these experiences.

The purpose of this report is to capture the experiences shared in the panel presentations and some of the comments made during the plenary discussions. The report highlights examples of the accomplishments, challenges, as well as networking efforts in microinsurance. It is expected that this report will encourage academics, practitioners and members of research institutions and multilateral organizations to further promote discussions and to accelerate the learning and exchange of ideas necessary to better address the need for insurance of informal sector workers.

Based on participant presentations, this report first provides a general framework for thinking about social protection and, more specifically, microinsurance. It goes on to describe health and life insurance programs run by FINCA Uganda, FINCA Malawi, and the Canadian Cooperative Association in China. Insurance programs carried out by CARD Bank in the Philippines and Delta Life Insurance in Bangladesh are also summarized. Following these experiences is a discussion on the challenges and lessons learned from these programs. Next, ongoing research and networking efforts by Microenterprise Best Practices, WIEGO, the ILO and MicroSave-Africa are described. Special attention is given to the project of a virtual microinsurance center. The report concludes with recommendations for next steps and areas of caution.

Please note that this report includes statements and opinions mentioned during the roundtable. These, however, do not necessarily reflect the opinion of the International Coalition on Women and Credit, or of the Special Unit for Microfinance of UNCDF.

I. FRAMEWORK¹

Traditionally, people in both the formal and informal economies have been exposed to risks threatening life, health and property that require risk management strategies. The informal economy is where the majority of people, and in particular the majority of women, in the developing world work. Besides very low incomes, one defining characteristic of people in the informal economy is the absence of formal means to manage risk.

Some of participants at the roundtable put the increasing interest in risk management in the context of globalization and the ensuing economic and social restructuring. These series of transformations created new conditions for individuals and for governments. It was argued that social protection and insurance were understood as market phenomena and that this view had led governments to step back and let people take care of themselves. Some discussants stressed that the distinction between the formal and the informal is becoming increasingly blurred in the face of changes in the global economy. Workers in the formal economy are becoming “informalized” particularly with regard to their exposure to risk and access to risk management strategies.

Security is one of the key missing factors in the informal economy and was identified as one of the main pillars for addressing poverty. For this reason, creating mechanisms to reduce vulnerability and increase security, and in particular risk and risk management need to become a primary concern.

The discussants stressed the need to recognize that neither poverty nor risk are gender-neutral and that it is often the women and girls within the household who disproportionately bear the burden of shocks and of informal risk-coping mechanisms. It is often the women who take care of the sick, work the additional hours, and give up their food and their education in the face of crisis. A study by Rose was quoted that demonstrates how risk affects women disproportionately in India.² In India, where low rainfall squeezes household incomes, Rose found that there was a much higher and systematic incidence of female, as compared to male, mortality in periods of little rain. The fact that risk is not gender-neutral makes it necessary to strategically place women at the center of social protection and risk management strategies.

Risk management should not be understood narrowly as a means to ensure greater security and improved social protection to the informal sector. It should be understood in a larger context where improved security can also become the catalyst for other factors for addressing poverty, in particular improved opportunities and increased assets.

While there are three means to manage risk (risk reduction, mitigation and coping), in the recent past, the poverty reduction discussion mainly emphasized risk coping. It is true that poor people often prove to be able to cope with risk and survive period after period, but this does not mean that it is done at no cost. In coping, the poor are usually forced to degrade

¹ The following framework was derived from presentations given by Martha Chen of WIEGO, Jonathan Morduch of Princeton University, and Paul Siegel with the Social Protection Unit of the World Bank.

² E. Rose, “Consumption Smoothing & Excess Female Mortality in Rural India,” Review of Economics and Statistics, Feb. 1999.

their asset base (i.e. cutting down a tree or removing a child from school) in order to react to a shock ex-post. New approaches to risk management, however, have been able to transition from a reactive approach to risk management towards a more proactive approach. New and more formal approaches try to manage risk ex-ante through risk mitigation (i.e. diversification of income sources, savings and insurance schemes) and risk reduction strategies (i.e. investment in infrastructure, information, education and health systems).

The transition from reactive to proactive risk management raises many questions about what the role of the different actors and institutions in providing social protection and managing risk should be. Microfinance institutions, for instance, are one of the possible providers of insurance services as a mechanism for social protection. Other possible service providers include the public sector, private formal insurers and community based organizations.

According to one participant in the discussion, the private sector may be the best fit to provide insurance products. Since private sector companies are profit-driven, they may have a vested interest in promoting sustainable and long-term risk reduction strategies, like proactive health improvements and the protection of housing facilities against disaster, rather than advocating only risk-mitigation or risk-coping methods. However, the role of private and formal sector insurers and of MFIs in providing microinsurance to the poor is yet to be defined.

The discussants basically agreed that social protection cannot be left merely in the hands of the informal traditional risk-management structures. There are hidden costs to informal insurance, networks and institutions; and, it is necessary to be wary of the traditional optimism about informal networks and institutions. It was assumed for a very long time that there was no need to worry about creating more formal structures of social protection and economic activity since households had access to networks and institutions and were rich in terms of social capital. Informal mechanisms such as savings in the form of grains or cattle, however, have proven to have very high costs and thus, have created a window of opportunity for microinsurance efforts.

In addition to high cost of informal structures and coping mechanisms, some discussants recognized that there is an important additional downside to using social capital for risk-management strategies: it relieves society at large and the government from their social responsibility and assumes that the responsibility is with the individual. A 'laissez-faire approach' to informal structures was seen as harmful as an entirely market-driven approach to social protection, where the government no longer becomes involved in ensuring the social good. Whether one values traditional structures or the market, one must not forget the critical role that the public sector plays in laying the foundations, providing information, and creating the infrastructure and rules and regulations that will allow for the development of social protection mechanisms, such as microinsurance.

Microinsurance is one form of social protection, and microfinance institutions are one of the potential providers of this service. In many ways, the provision of microfinance and microinsurance are innovative strategies for addressing the needs of workers in the informal economy. These strategies seek to go beyond merely improving and maintaining traditional social structures and traditional mechanisms of managing risk: they are an attempt to formalize and to create new systems that forge new relationships in risk management

strategies. Addressing risk and risk-management strategies might entail creating hybrid formal/informal institutions.

MFIs have demonstrated interest in entering the microinsurance industry for several reasons. In some cases, it is a response to clients' expressed need for insurance. MFIs have come to realize that insurance, in addition to reducing household risks and protecting the client, is also efficient in protecting the institution. As insurance increases clients' ability to repay their loans, it has a positive impact on default rates. Providing insurance as an additional product might not only enhance client satisfaction, but also allow MFIs an additional source of income, potentially improving their profitability and financial sustainability.

The participants concluded that before MFIs enter the insurance industry they should first understand the challenges of this field. It is important to learn from what has already been done in the formal and informal and in the private and public sectors. MFIs should conceptualize what the informal economy is, who their clients are, what activities they engage in, what portion of the population they constitute. This was seen as necessary in order to initiate the process of putting the informal sector and the need for microinsurance on the radar screens of policy makers and for MFIs to be positioned as important actors and shapers in the insurance industry.

II. EXPERIENCES IN THE PROVISION OF INSURANCE FOR THE POOR³

Microfinance institutions provide a breadth of financial services, which range from loans and savings to insurance. Among the several types of insurance products that some MFIs provide are savings and life-, disability-, health-, property- and loan insurance. Microfinance institutions employ different strategies in the provision of insurance, for instance, providing insurance on their own (Canadian Cooperative Association), forging alliances with formal sector insurers (FINCA Uganda), or serving as umbrella organizations for smaller MFI service providers (Friends of Women's World Banking/India). These different products address various needs of the poor, and along with the different strategies, have different institutional implications for microfinance organizations. Some institutions, like SEWA in India for instance, have succeeded in providing an integrated insurance scheme to its clients, whose coverage includes sickness, death, widowhood, maternity and loss due to flood, fire and riots. Other institutions, like Friends of Women's World Banking under its Social Protection Project, for example, engage in capacity building of its member microfinance institutions, so as to enable them to adopt such integrated approaches. FWWB/India supports its member institutions to create partnerships with insurance companies and provides its members technical assistance.

This section includes some examples of the provision of microinsurance by microfinance institutions and other private sector insurers as presented in the roundtable, with a concentration on life/disability and health insurance. It concludes with a set of lessons and challenges that were stated by the discussants. Looking at the specific experiences of FINCA (Uganda and Malawi), Delta Life Insurance (Bangladesh), CARD Bank (the Philippines), and the Canadian Cooperative Association (China) will help illustrate some of the mechanisms and different institutional arrangements through which some MFIs as well as some private insurers operate. Both institutional structure and product design gained importance in the context of the roundtable discussion since they raise important questions about institutions' ability to address the need of social protection of low income people, in particular women, while remaining financially self-sustainable. More specific material is available on some of the case studies presented. Please refer to the reference list at the end of this report.

A. LIFE/DISABILITY INSURANCE

Life/disability insurance provides protection to the client and her family, should she or some of her family members die or suffer from a disability. Death and disability bring a shock to household income, either because of the funerary expenses incurred with the death of a family member or because a disability might impede the client or a family member from continuing

³ In this section, information from the FINCA and CCA projects were taken directly from the FINCA presentation given by Till Bruett and Canadian Cooperative Association (CCA) presentation given by Sue Carey. The presentation given by the International Coalition on Women and Credit as well as its publication, *Strategies for the Provision of Insurance for Low Income Women Entrepreneurs*, are the basis for the information found here on Delta Life, CARD, FWWB and SEWA. The Coalition's presentation and publication also include information on India's SHARE and Sri Lanka's SANASA and Janashakthi Bank Societies, which are not included in this report.

to engage in productive work. Death and disability pose a threat to household income and survival, while also threatening the client's ability to repay her loan. While the life/disability insurance has proven to be quite popular in some regions, insurance providers still face challenges, such as poor people's lack of understanding or acceptance of the concept of insurance.

FINCA International, Uganda and Malawi

Operating with the village banking methodology, FINCA International is a 15-year old non-profit organization that is present in 19 different countries. Through a network of branches and affiliates, FINCA primarily provides credit and training to the 160,000 clients that compose its self-administered village-banking groups. Loans made by FINCA have a compulsory savings component. Savings balance of clients amounts to over 50 percent of the loan portfolio. Though FINCA's village banks are not allowed to intermediate these savings, they are allowed to demand guarantee deposits, which act as a form of collateral.

FINCA started to experiment with insurance products only recently. Under a partnership with the American International Group (AIG) in Uganda, FINCA started to provide life and disability insurance. This came as an attempt to better serve clients at a time when FINCA was facing high turnover rates and increasing competition in Uganda. The life and disability insurance is designed to provide protection not only to clients but also to the institution, should the client be involved in a debilitating accident or should the client die in the course of a loan cycle. In the case of death or disability the insurance automatically pays the balance of the loan of the client. In its expanded version, the product also provides a substantial death benefit of up to \$500 in the case of death of the client, her/his spouse and up to two children in the family. Coverage is limited to death by accidents and excludes death by natural cause or HIV/AIDS. Because funerary expenses and associated costs in Uganda are quite high, FINCA recognized that insuring the client alone would not be sufficient and that the death of family members would also affect the repayment rate of its clients. Life insurance has become a very popular product with up to 75 percent of groups participating.

The insurance product is provided on a group basis following concerns about economies of scale. It is provided under a partnership model and is not a profit-seeking activity for FINCA. The administrative responsibilities of the program are minimal: AIG provides the insurance service, while FINCA provides AIG with the names of its clients and up to three of their family members. Because of bookkeeping and control problems, FINCA recently eliminated the process of charging a separate fee for the insurance product and transferring those funds to AIG. The cost of the service is now bundled with the cost of other auxiliary financial services into FINCA's interest rates.

Based on the experience in Uganda, FINCA launched a life insurance product in Malawi, which originally began as credit insurance. Similar to the insurance program in Uganda, the service is administered on a group basis and, though much less generous, it covers the FINCA client and up to three of his/her family members. The fee charged is equivalent to one percent of total group loan. In contrast to the program in Uganda, the Malawi program is carried out by FINCA alone.

Delta Life Insurance, Bangladesh

Delta Life Insurance is a private insurance company that provides two microinsurance products aside from its conventional insurance products: Grameen Bima (rural insurance scheme which started in 1988) and Gono Bima (urban insurance scheme which started in 1993). Offering a combination of life and savings insurance schemes, Delta Life's Endowment Policy seeks to service the poor with maximum possible benefits at a minimum cost.

Delta Life's microinsurance products serve a particular market niche: Clients must be from 18 to 45 years of age, earn a minimum income of \$100 a month, and be in good health. Policies run from 10 to 15 years and sums insured range from \$100 to \$1,000. Insurance claims are paid either at maturity or in the event of death, whichever comes first. Depending on the policy chosen, clients receive savings with an accumulated bonus.

Although highly successful with its commercial products, Delta Life has experienced various challenges to its microinsurance products, such as high overhead costs, high drop out rate and unsuccessful staff incentive schemes. Currently, Delta Life is considering separating the microinsurance from the conventional insurance. One reason is that the success of the conventional insurance products and the high rate of dividends to shareholders causes suspicion among the general public that the poor policyholders are being exploited for the benefit of the conventional products and shareholders.

CARD Bank, Philippines

CARD Bank is a regulated financial institution in the Philippines that started providing loan redemption insurance as well as small offerings of life insurance in 1994, after creating its Insurance Fund. In the early 1990s, CARD discovered the extent to which unforeseen events such as death, disability and illness could affect its clients' (poor rural women) repayment rate.

In a recent audit review it was discovered that CARD's Insurance Fund might be unable to cover claims in the future and should that happen, CARD would be held liable. Attempting to address the problem, in 1999 CARD created the Mutual Benefit Association (MBA), a separate non-stock, non-profit organization managed and owned by its member-clients. Insurance funds previously held at the CARD Bank were transferred to the Association. In order to assess risks, MBA underwent an actuarial analysis, from which recommendation for different insurance schemes were made.

Aside from providing a loan redemption insurance that helps protect both clients and the institution, MBA is currently offering two additional products: a life insurance/pension scheme and health insurance. The life insurance/pension scheme includes as dependents the legal spouse and children below the age of 21. The proposed medical insurance program would cover the client, her legal spouse, children below the age of 21 and parents over the age of 60. The launching of the medical benefits program is pending final approval from its members.

B. HEALTH INSURANCE

Health insurance seeks to provide clients, and often their families, protection against household income shocks provoked by health-related problems. Microfinance institutions discovered early on that their clients were spending much of their loans and sometimes even their productive resources to finance health-related expenditures, all of which ultimately affected their ability to cope with risk and, equally so, to repay their outstanding loans. One of the successes of health insurance has been to facilitate access to health care for the poor. However, one of its greatest challenges is addressing some of the bigger-ticket items that threaten family livelihoods, like treatment for HIV/AIDS, for instance.

Canadian Cooperative Association (CCA), China

CCA China started its microfinance program in 1996. With a similar philosophy to the village banking methodology, CCA operates through what should eventually become financially self-sufficient, client-managed, and client-owned credit cooperatives. While CCA started out by providing loans to women groups, its role as lender is expected to diminish over time as client members slowly start using their own savings for loans. Incorporated into the design of its microcredit program is a health and nutrition training project. Through this project and its mandatory yearly health check, CCA identified that 80 percent of its 3,000 members were sick which affected their ability to repay CCA loans. In a context where it is not common practice to visit a doctor and where the Chinese government changed its position on centralized services and is no longer providing free health care to the people in the region, CCA saw the need for health insurance. Health problems are the most common reason for loan default, either because people are too sick to operate their businesses or because they had to sell their assets and possibly bankrupt the family for a whole generation in order to pay for medication or operations.

CCA China has recently started a small pilot health program for its clients. The program is not yet financially sustainable and is currently being supported by funds from the Canadian government as well as client membership fees. These are supplemented with matching funds from the village center development fund, which is composed of interest earned by CCA on their loans.

CCA coverage includes loan insurance up to \$240 since this is the maximum loan size, and health treatment up to \$360. The health program is self-managed and includes hospitalization, surgery and pain management. Not included are illnesses covered by the Chinese government itself, such as hepatitis and tuberculosis. The annual health diagnosis and the treatment of and medication for common illnesses are not included either under the program, but CCA provides them under their health-training budget.

CCA China is following an integrated health insurance approach insofar as it provides health care facilities together with the health insurance scheme. It has managed to raise additional funds from donors and to receive a matching grant from the Canadian Cooperative Association to build a model health facility staffed with local doctors. It has recently started its operations. Emphasis is on providing better quality health services and in getting people to come to the clinic. It is not a full hospital and though it cannot do surgeries, it can deliver

babies, do outpatient care and host patients for a short period of time. The project is expected to become self-sustainable within the next five years and CCA hopes to replicate it in southwest China, where the health insurance component has already begun to be implemented. CCA expects to have 6,000 members by 2001.

FINCA International, Uganda

FINCA started a health insurance pilot program with 120 families in Uganda in 1999 that lasted for six months. It did so after being approached by the Nsambya local hospital, which was already partnering with an Irish relief organization to provide health insurance to low income clients but which was facing problems of outreach. Having a client base of nearly 20,000 clients with whom it meets on a weekly basis made FINCA an ideal partner. Currently FINCA helps administer the program by signing up clients and processing bills, though money never passes through FINCA's hands. All transactions are done through automatic transfers from group savings accounts to individual health insurance accounts.

Synchronized with the FINCA loan cycle, health insurance is provided on a three- to six-month basis. Like FINCA's life insurance product, it is provided on a group basis, where at least 75 percent of group members need to sign into the policy in order for the group to be serviced. The health insurance scheme covers services provided to clients (plus up to three family members) at the Nsambya Hospital. These include: casualty and out-patient services; in-patient services; consultation with doctors; general medical practitioner appointments; special investigations such as X-rays, ultrasounds, and cardiograms; drugs prescribed by the hospital itself; hospital stays for up to three weeks per period; maternity coverage; simple dental coverage; and optical consultation. HIV/AIDS is covered for people seeking diagnostics and advice. There is, however, a limit of \$233 in health expenditure per client per period. Among items not covered are cosmetic surgery; fertility treatment; self-inflicted injury or illness; alcoholism and drug-addiction; and ongoing medication for chronic illnesses, like HIV/AIDS.

With the health insurance project expanding beyond the pilot program, FINCA hopes to have 2,000 families enrolled by the end of 2001. The popularity of the program led FINCA to explore the possibility of becoming the repository for the health insurance scheme, which currently resides in the Nsambya hospital itself. There are still unresolved questions concerning the most appropriate mechanism for running the program. There is potential of expanding this program in the six regions FINCA Uganda operates by partnering with a number of different hospitals, which have expressed interest. Whether this product would be private-labeled by the insurance consultants that were working with the Nsambya hospital or whether FINCA would run individual programs with the 12 potential partner hospitals in the different regions of the country is yet to be defined.

C. LESSONS AND CHALLENGES⁴

The presentation and discussions during the roundtable underlined that the provision of insurance to poor people has posed many challenges to microfinance and private sector institutions. As can be clearly seen from the examples above, insurance is not a monolithic concept. There is a wide range of different products and of different mechanisms through which these products can be offered. According to a study conducted for the Microenterprise Best Practices project (MBP), life insurance is the least complex of all insurance products and there are quite a few microfinance institutions that provide successful life insurance products⁵. MFIs have been experimenting and piloting health insurance schemes; however, the microinsurance programs, which MBP observed so far have not successfully achieved the expected outreach, coverage and sustainability. While many institutions are making progress and showing encouraging signs, there are common challenges insurance providers seem to face:

- *Understanding insurance:* in general, clients find it difficult to understand or to accept the concept of insurance. Accepting the notion of paying money up-front for a product they are not necessarily or at least not immediately getting back is a challenge. Microfinance institutions report that it has been beneficial to hold educational meetings and workshops to explain to clients the concept of insurance, risk and mutual help.
- *Fraud:* though fraud is common concern among microfinance institutions and cannot be entirely eliminated, it can certainly be mitigated. Among the strategies used to deal with fraud, for example, CARD Bank from the Philippines requires clients to provide multiple sets of documentation. For example, since life insurance coverage includes spouses, CARD requests not only death and life certificates, but also marriage certificates. In addition to this, CARD accepts claims in a central location, so peers can help verify the identity of the spouse.
- *Fund management and investment opportunities:* microfinance institutions have faced many challenges in fund management. While some institutions use the extra income that insurance generates for additional lending activities, others see themselves trapped by the limited investment opportunities they face in their countries. In Bangladesh, for instance, the government requires that insurance companies invest 60 percent of their surplus premium in government securities. Delta Life Insurance, for example, invests a considerable fraction of the remaining 40 percent in the real estate sector, because it is a secure, long-term investment. As is the case in many other countries, not many more investment opportunities exist in Bangladesh. Unfortunately, this can have serious implications for institutional sustainability and development.

⁴ The information in this section is derived from Marla Gitterman's presentation and from *Strategies for the Provision of Insurance for Low Income Entrepreneurs*, a report on the International Coalition on Women and Credit conference in Sri Lanka, in 13 May 2000. Initial comments and cautionary notes were taken from Warren Brown's presentation; comments on product design, moral hazard and adverse selection were taken from Jonathan Morduch's discussion.

⁵ W. Brown and C. Churchill, *Micro-insurance Provision in Low Income Communities Part II: Initial Lessons from Micro-Insurance Experiments for the Poor*, Microenterprise Best Practices, Washington, D.C., February, 2000.

- *Tradeoffs when addressing issues of moral hazard and adverse selection:* in insurance markets, it is always a challenge to design products in a way that best addresses moral hazard and adverse selection. Moral hazard refers to the risk that policyholders will change their behavior after they are insured and increase the likelihood that a claim will be made. For example, a person may have less of an incentive to take care of him or herself if they were receiving full health insurance coverage. Adverse selection refers to the possibility of people with high risk being the most likely to sign on to an insurance policy. Even more challenging than designing an insurance product that addresses these problems is finding a way to do so that does not lose sight of the client base the microinsurance market was intended to serve in the first place, the poor.
 - *Moral hazard:* while there are a few methods of addressing moral hazard, like deductibles and coinsurance, most microfinance institutions tend to use only caps. Caps, however, encourage several small claims—claims that perhaps could be well covered by a poor household through other means, like private savings. Giving emphasis to small claims and limiting insurance in the case of catastrophes that could wipe out a poor household seems to be ignoring the very issue microinsurance was meant to address. Evidence from Indonesia shows that households without any access to microcredit were able to cover 70 percent of the cases of minor illnesses on their own, while only 30 percent of major health expenses like chronic diseases. The design of microinsurance products has serious social and institutional implications that pose a challenge to microinsurance providers. Having only a catastrophic coverage might make it more difficult for insurance providers to sell their products to an audience that does not fully grasp the concept of insurance. Nevertheless, covering only common events raises the question of whether the poor would be better off having a flexible savings program rather than formal health insurance coverage. Understanding the tradeoffs in product design for both the institutions and their clients is crucial, especially when dealing with the poor.
 - *Adverse selection:* dealing with adverse selection poses additional challenges for microinsurance providers. Designing a program that is voluntary, for instance, would prove to be problematic, since the people with a higher risk are likely to be the first ones to sign into the program or be willing to pay higher premiums than those with lower risk. Decisions about whether to make the insurance program voluntary or mandatory, individually-based or group-based does not affect only an MFI's transaction costs, as was highlighted in the FINCA examples. Above all, it affects the problem of adverse selection, in the same way that discriminatory pricing does. Though discriminatory pricing is a simple yet effective mechanism to circumvent this problem from the institutional point of view, differential pricing might end up placing the burden of payment onto the poor and the sick. Potential tension between the social and the institutional dimensions is difficult to ignore.
- *Institutional capability:* dealing with the challenges above as well as with the design and implementation of microinsurance products raises many questions about the technical mechanisms and the institutional capabilities required. Though microfinance institutions have an existing infrastructure that facilitates outreach and possibly the development and implementation of microinsurance products, they might be over burdened in designing

and running insurance schemes that require a large client base. Insurance is a highly technical business and requires specific institutional capabilities, such as:

- *Qualified staff*: since credit and saving require a different set of skills from insurance, it is often recommended that microfinance institutions have separate staff to manage the different products.
- *Actuarial analysis*: very technical and expensive, actuarial analysis is a very important financial and managerial tool, allowing insurance institutions to see if their assets cover their liabilities and if their operations are healthy.
- *Ability to design products with client participation*: consulting clients in the formulation and design of products is crucial to the success, cost-coverage and marketability of the product. CARD, SEWA and Janashakthi have exemplary mechanisms for client consultation and participation.

The very technical nature of insurance products requires a set of knowledge and skills microfinance institutions may not have, but which could be potentially and indirectly acquired through strategic alliances with specialized insurance companies. Many discussants of the roundtable concluded that alliances tend to be beneficial for both the microfinance institutions and the insurance companies. It is beneficial for MFIs to create partnerships with insurance companies both for their technical expertise as well as to help minimize liability. It is beneficial for insurance companies to forge alliances with MFIs especially given MFIs knowledge and understanding of the needs of the poor as well as their outreach and distribution channels, which may help lower overall costs. Whether or not engaging in partnerships or possessing the full range of capabilities and resources that microinsurance requires, microfinance institutions should be cautious before they decide to jump into the microinsurance industry. There are a few issues to consider:

- *Market potential*: is there market potential and is there really a demand for the microinsurance product among clients? It is important for MFIs not to focus exclusively on the provision of microinsurance as an institutional protection scheme, but to identify a risk that clients are interested in paying a regular premium for in exchange of protection. In Cambodia, for instance, it was expected that clients would be very interested in buying property insurance on their pigs. When a market research came out, however, the MFI originally interested in providing the service found out that more than 50 percent of the clients were not willing to pay for this type of insurance. Though conceptually some forms of insurance seem like a good concept and thus could have great potential, from the perspective of the client, it may not necessarily be the case; and, the type of insurance being offered may not necessarily be what they were looking for.
- *Insurability of risk*: once determining that there is a demand for the product, one must also make sure that the insurance product covers a risk, not a certainty, and that the risk is insurable. Attempts to provide crop insurance in the 1970s and 1980s, for instance, were disastrous because institutions were trying to insure a risk that was not insurable. Janashakthi Bank Societies of Sri Lanka, which have agriculture as the bulk of their portfolio and insurance claims, are still finding difficulty with their insurance product. They find themselves unable to predict upcoming risks, to assess the extent of agricultural

damage, to collect accurate information and to deal with the high-risk correlation among clients.

- *Coverage and sustainability:* If there is both demand for the insurance product and the risk is insurable, the microfinance institution still has to face the challenge of developing a policy that has broad coverage and that is affordable for its clients but also sustainable for the institution. It is also worth highlighting that microfinance institutions and microinsurance often deal with a number of clients that is much smaller than that of the conventional insurance companies, which might represent a challenge in terms of costs and sustainability for MFIs.

III. NETWORKING ACTIVITIES

Common interest in social protection, microinsurance and its many challenges has brought many microfinance institutions and practitioners, research groups, academics and multilateral organizations together. There have been collaborative efforts to learn about the microinsurance industry, to test pilot projects as well as to share information and knowledge. The roundtable provided an opportunity for some of the key players to convene to discuss ongoing efforts and collaborations. What follows is a brief description of some of these efforts.

A. RESEARCH: MICROENTERPRISE BEST PRACTICES (MBP)⁶

Microenterprise Best Practices is a USAID-funded project, managed by Development Alternatives Inc. (DAI) in collaboration with a consortium of researchers and practitioners, including FINCA International, Accion International and Calmeadow. Among other research initiatives MBP is working on, it also deals with new microfinance product development, of which insurance is a part. One of the objectives of the Product Development initiative is to look at how microfinance institutions can expand their core products and their portfolio, for better serving their clients and to simultaneously increase their outreach. With regards to microinsurance, MBP is working closely with CGAP, the International Labor Organization and MicroSave-Africa to coordinate research and to disseminate its findings effectively and efficiently.

MBP has published two studies. The first looks at the insurance industry from the perspective of experiences in the developed world. Since insurance is not a new concept, it looks at the lessons that microfinance can learn from the formal insurance industry, at the potential markets and the potential types of businesses and risks that one might insure, as well as at the means through which one might do so. The second study looks at the microfinance world and tries to understand who the players are and what each of these players is doing. This study included a survey conducted with different institutions, non-governmental organizations, banks and cooperatives, which looked at the different insurance products each is offering.

MBP priorities for its future direction of actions remain with:

- Improving understanding of current experiences and disseminating this knowledge;
- Improving and encouraging network information sharing (an example is a three-week virtual conference on insurance this October, organized and hosted by MBP); and
- Encouraging wider dissemination of concepts and information in countries with difficult access to information, which might require going beyond the virtual and addressing language issues.

⁶ The information in this section is derived from a presentation made by Nhu-An Tran of MBP.

B. NETWORKS: MICROSAVE-AFRICA, WIEGO AND STEP-ILO⁷

Women in Informal Employment: Globalizing and Organizing—WIEGO

Created in 1997, WIEGO is a worldwide network of research and academic institutions, international development organizations, and grassroots organizations seeking to improve the status of women in the informal economy through better research and statistics, programs and public policies. WIEGO grew out of an earlier partnership and collaboration between the United Nations International Fund for Women (UNIFEM), the Self-Employed Women's Association (SEWA) and Harvard University. Its partners today include two international grassroots alliances of home-based workers and street vendors, people from the World Bank, the International Labor Organization and the United Nations Statistics division.

In addition to WIEGO's other four programmatic areas, such as Urban Policies, Global Markets, Organization and Representation, and Statistics, is the area of Social Protection. Social Protection is the organization's newest programmatic area and its main concern is to understand the contingencies and the shocks the informal sector faces and to promote that these be addressed not only through loans, savings and insurance mechanisms, but also through pensions and a wider form of safety nets. WIEGO members believe that social protection needs to be addressed jointly by the government, the private sector, NGOs and grassroots organizations.

WIEGO has recently published together with ILO-STEP and with funding from the World Bank a background paper called *Learning from Experience*, and will establish a permanent office of the Social Protection Group in 2001. WIEGO believes that if microinsurance wishes to gain ground and gain a voice in shaping public policy, that the informal sector must first be well conceptualized. Solid grounding in statistics is needed, along with research, case-study documentation, and pilot programs.

International Labor Organization and STEP

The ILO's interest in risk management is consistent with the principles embedded in the ILO's 1944 Philadelphia Declaration and in its Decent Work Agenda, which promote the examination and consideration of international financial and work policies in the light of social justice. The International Labor Organization has at least two different departments working on risk management, one being the Social Finance Unit and the other the STEP Program (Strategies and Tools against Social Exclusion and Poverty).

The STEP global strategy to social protection, rather than being based entirely on microinsurance, is also based on two other pillars: social insurance and social assistance. The ILO supports social security institutions, which provide insurance schemes to workers in the formal sector. It recognizes, however, that this only covers 5-15 percent of the entire population in developing countries and that support must also be given to government-run social assistance programs, which aim at targeting the poorest of the poor. In the face of the recent socio-economic and political liberalization, the ILO also acknowledges that many

⁷ The information found in this section was taken from presentations made by Martha Chen of WIEGO; Peter Rademaker, Jim Roth and Marc Socquet of ILO; and Annette Krauss for MicroSave-Africa, respectively.

developing countries' social security systems no longer function under the same impetus they did before. The ILO's three-pronged approach to social protection promotes microinsurance as a complement to these other formal structures and encourages the participation of different actors, such as NGOs, community-based organizations, trade unions, employers' organizations, health providers and insurance companies.

In its work with microinsurance, STEP focuses on community-based, -owned and -managed financial institutions (both under the cooperative and the mutual society models) and on intermediary, non-banking financial structures, such as NGOs, MFIs and foundations. It is mostly interested in health, life and livestock (life and health) insurance. Thus far, STEP has promoted the provision of microinsurance through MFIs by conducting case studies, compiling experiences from the field, organizing research activities, developing practical tools and instruments, developing training activities, providing technical assistance, implementing pilot projects, disseminating information and knowledge, playing an advocacy role and participating in networking activities. ILO-STEP's training programs, having been administered in Latin America, Europe, Asia and Africa, have a global dimension. Likewise, its microinsurance pilot projects can be found in a wide range of countries, from Burkina-Faso, Benin, Senegal and Guinea, to Bangladesh, Vietnam and Haiti.

Complementary to the work being performed by STEP, the Social Finance Unit of the ILO is currently focusing on microinsurance research. Among the areas of study is funeral insurance and insurance in the context of the HIV/AIDS epidemic. A current study, for instance, looks at funeral insurance in the informal sector in Gravestown, South Africa, where funeral is a major life cycle expenditure, equivalent to 15 times the household's monthly income. While there is a wide range of institutions that provide life insurance, the study shows that people have a preference for informal as opposed to formal insurance and for simple policies with few exceptions. People want to be able to pay their premium at any time during the month, have their claims settled quickly and have policies administered by members of the community themselves. As was the case with this study, the Social Finance Unit is trying to learn from institutions that are providing the poor with microinsurance services and disseminate these findings. Disseminating information and including formal insurance companies as well as interested microfinance institutions in meetings about microinsurance is a main part of its agenda.

Given the dimension of the HIV/AIDS epidemic and the toll that it has on households, the Social Finance Unit will be extending its funeral insurance research to Mozambique, Tanzania, Swaziland and other parts of South Africa. One of the aims of this research and of a series of case studies it wants to put together is to understand when and how insurance can become a viable option for microfinance institutions. Another is to see what role MFIs may play, if any, in pooling risks among the widespread community-based insurance schemes.

MicroSave-Africa

MicroSave-Africa is a CGAP, DFID and UNCDF/UNDP initiative based in Africa. It became operational in 1999, having as a primary focus to promote reliable and sustainable savings products among microfinance institutions in eastern and southern Africa, though it is now trying to create linkages to initiatives in western Africa as well. The first phase of MicroSave-Africa included conducting action research and developing training courses for

microfinance providers and trainers in Africa. Now in starting its second phase, one of MicroSave-Africa's plans lies in establishing a virtual 'Microinsurance Centre', an internet-based clearinghouse for microinsurance information, in co-operation with the other networks and the agencies linked to CGAP.

Among MicroSave-Africa's commitments to partners like WIEGO and the ILO are:

- Development of a tool kit for microfinance institutions to pilot test savings products, which will prove helpful in the pilot testing of insurance products. This has already been accomplished.
- Research on insurance products of four institutions: SEWA, FINCA Uganda, GRET and UMASIDA, which is still in progress. Focus will be on the clients, the institutions, and on the partner health care providers and insurers.
- To lead in carrying the microinsurance agenda forward, which is also still in process but includes:
 - coordinating the exchange of information
 - conducting research on pilot testing of new products and on the development of linkages, documenting a wide range of experiences and models in the provision of microinsurance
 - conducting pilot projects and assisting projects that are expanding, and
 - providing technical assistance, with priority given to direct partners.

The Virtual Microinsurance Centre

A common interest and common denominator of networking activities, as presented, is a virtual center on microinsurance. The virtual center would focus its attention not only on microfinance institutions but also on formal sector insurers and relevant providers. The possible features of the center, as follows, were presented and discussed during the roundtable.

The main objective of a virtual center would be to link formal sector insurers to donors and microfinance institutions, with the hope that this will provide better quality services and broad-based insurance products at the micro level. For these alliances to take place, it was recognized that there is a need to market microinsurance to potential formal-sector partners and to show them the benefits of insuring the poor. The center would also entail providing insurers with tools to help them achieve effectiveness and efficiency in this new market. Once the center has accumulated enough experience and knowledge, the center's team of experts could help in the interface between formal sector insurers and microfinance institutions; in product development; and in the testing and implementation of this product by MFIs and formal insurers. Formal sector insurers would include local and regional insurance service providers, as well as large international groups.

Aside from this technical assistance, the virtual center will mostly consist of an active database of microinsurance documents, articles, case studies, and evaluations made easily available and organized by industry, type of insurance and theme, with links to relevant sites. A list-serve focused on practical issues (design, testing and implementation of insurance products) will complement the virtual network. Other virtual events, like a follow-up to the MBP virtual conference in October, are also being envisioned.

While MicroSave-Africa currently is in the phase of developing a business plan for the Microinsurance Centre, close conversations with the ILO-Social Finance Unit, STEP, CGAP, and Calmeadow are taking place to define key issues, like the need to provide the virtual center with an institutional home. Discussions following the presentations at the roundtable suggested a close co-operation.

The sharing of experiences and facilitating dissemination of information poses challenges if one wishes to include practitioners, researchers, governments and NGOs in countries where information is difficult to obtain. Aside from the creation of a virtual network, the group is faced with the challenge of also fostering non-virtual networks and supplementary mechanisms for information sharing. In thinking about its development and consolidation, the center should carefully address the issue of language and devise mechanisms that could make this center a truly participatory and inclusive one.

IV. CONCLUSION⁸

In the face of economic and social restructuring worldwide, it has become necessary to address the issues of social protection and risk management in particular for the poorer parts of the population, who do not have access to formal risk management strategies. The ongoing discussions reveal that there is still a lot to learn in order to move forward and reduce the vulnerability of poor people. Many microfinance institutions, research groups, academics, NGOs, networks and grassroots institutions are working to establish social protection mechanisms through microinsurance services. These services constitute a hybrid form between informal risk coping strategies in the absence of any regulation, and formal social protection from the private or public sectors. They could be complementary to other approaches provided that they can achieve outreach to clients who do not yet have access to social protection, operate effectively for reducing the vulnerability of their clients, and become efficient and sustainable. Although there are some promising examples, it is still unclear how microinsurance services and institutions can play this role. The current interest in the topic suggests that answers will come out of an increasing number of experiences of MFIs piloting microinsurance services.

Although MFIs are but one of the possible players in the microinsurance industry, microfinance institutions have an infrastructure and an acquired set of skills and capabilities that will prove crucial in allowing insurance to reach the poor. Having promoted for years other financial products to people in the informal economy, microfinance institutions have gained experience in dealing with clients at a grassroots level, in many cases attaining considerable depth and breadth in their outreach. MFIs have access to information about their clients at this level. The knowledge MFIs have acquired about their client base as well as the relationships they have developed through credit and savings products could create an advantage over new entrants to the market. In addition, screening mechanisms that MFIs have already set in place may prove to be useful in reducing the problems of adverse selection and moral hazard associated with insurance products.

However, microinsurance is a highly technical operation, and this poses many challenges and merits caution. Recognizing and being aware of cautionary notes does not imply that one should necessarily be pessimistic about the prospects of microinsurance for microfinance institutions. Transaction costs in the insurance industry are undeniably high, and experience indicates that it is difficult to offer effective and sustainable insurance products for poor people. Yet the same could have been said about the microcredit sector fifteen years ago. The challenges that microinsurance poses today simply imply that there is still a lot to learn from the informal economy and from formal insurance providers, and that there are serious institutional issues to consider. It is important to recognize that microfinance institutions may certainly have much to contribute to the industry, but that they, too, may have a lot to benefit from forging partnerships and developing linkages with for instance other insurance providers.

⁸ The conclusion draws heavily on the afternoon discussion and on Jonathan Morduch's and Warren Brown's presentations. It does not necessarily reflect a common point of view of the roundtable participants.

The roundtable dealt with the vision and intention of developing a more formalized mechanism for sharing information and learning, for collaborating with different partners, and for developing a full-fledged virtual center on microinsurance in the future. Participants agreed that a first step would be to begin by sharing information among the participants of the roundtable. Immediately following the discussion, Warren Brown compiled and distributed a questionnaire asking participants to explain their knowledge of microinsurance experiences as well as questions on microinsurance that they would like to see being answered or further discussed. A copy of this questionnaire is included as an annex. Eventually, this information will be consolidated and made more widely available, creating the basic groundwork to what is envisioned to become a truly virtual and interactive center.

In sum, building partnerships, increasing the depth and breadth of learning, exchanging microinsurance experiences and strengthening ongoing networking efforts are key to addressing the many challenges that this industry presents—these being the primary objectives of the roundtable on microinsurance.

ANNEX 1: ANNOTATED AGENDA

ROUNDTABLE DISCUSSION ON MICROINSURANCE SERVICES IN THE INFORMAL ECONOMY: THE ROLE OF MICROFINANCE INSTITUTIONS

*Friday July 21, 2000
Ford Foundation, New York
Annotated Agenda*

The overall objective of the roundtable is to learn about specific experiences and strategies in the provision of microinsurance for low income entrepreneurs, particularly women.

Specific objectives are to:

- share experiences on the delivery of microinsurance products;
- share information on initiatives of global networks promoting research and pilot projects on microinsurance;
- discuss the role of MFIs in providing insurance—such as life, disability, asset, health, pensions; and
- systematize key issues coming out of the experiences.

9:00 –10:00	Registration
10:00 –10:15	Opening Objectives of the roundtable and review of the agenda
10:15 – 11:15	Panel Presentations 1. FINCA International, Till Bruett 2. Canadian Cooperative Association, Sue Carey 3. International Coalition on Women and Credit, Marla Gitterman Moderator: Annette Krauss Break
11:15 – 13:00	Panel Presentations 1. ILO/STEP, Peter Rademaker, Jim Roth, and Marc Socquet 2. WIEGO, Marty Chen 3. MPB/Calmeadow, Nhu-An Tran and Warren Brown 4. MicroSave-Africa/SUM, Annette Krauss 5. World Bank Special Protection Unit, Paul Siegel 6. Princeton University, Jonathan Morduch Moderator: Marla Gitterman
13:00 – 14:00	Lunch Break

14:00 – 16:00

Plenary Discussion

Moderator: Celina Kawas

1. What are ways that institutions can determine client demand and projected outreach for insurance?
2. What capabilities does an institution need to have in place before it can offer insurance products?
3. What are the advantages and disadvantages in establishing alliances of MFIs with other entities such as insurance companies and government agencies?
4. What are enabling environments, policy regulations, or legal constraints for institutions that provide insurance to low income women?
5. In what key areas is there a need for additional research, pilot projects, case studies, and policy-related activities?
6. How can microinsurance networks and working group initiatives best tailor their efforts to serve the needs of the different stakeholders?
7. What are the possible ways to exchange information among practitioners and other stakeholders, particularly with those who do not have regular access to Internet or resources to attend workshops?

ANNEX 2: REFERENCE LIST

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- Van Ginneken, Wouter, "Pensions for Women in the Informal Economy: Options for Developing Countries", Discussion Paper for ILO/STEP/WIEGO Workshop on Social Protection for Women in the Informal Economy, Geneva, 6-8 December 1999
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For further reference on the above-mentioned ongoing case studies on microfinance institutions that are piloting microinsurance services please refer to the web site of the Consultative Group to Assist the Poorest (CGAP) at <http://www.cgap.org>

ANNEX 3: MICROINSURANCE CENTRE QUESTIONNAIRE

MICROINSURANCE INFORMATION SHARING

1. List of Current Experience and Resources

Please include here a brief reference to microinsurance programs that your organization is operating or is aware of, microinsurance-related publications or other materials that your organization has produced and/or ‘experts’ on related topic areas within your organization.

1.1 Existing Products/Products Under Development

Name of Program or Organization(s) and Country of Operation	Type of Product (life, health, property)	Risks Covered (e.g., accidental death, no suicides, etc.)	Benefits Provided (Please include benefits to the MFI, to clients and to other parties)	Premiums Charged	Organizational Structure (e.g., community-based plan or partnership with established insurer)	Contact Person	Contact Information (email, fax, etc.)
			<ul style="list-style-type: none"> ▪ Benefits to MFI: ▪ Benefits to Clients: ▪ Benefits to Other: 				

1.1.1 Additional Information: Please feel free to include any additional information about the program in question:

1.2 Publications, Tools and Training Materials

Title of Document	Authors	Brief Summary	Sources of Information	Format (Paper, Electronic, etc.)	Language	Contact Person or Location	Contact Information (email, fax, etc.)

1.3 Sources of Expertise

Name of Person	Are of Expertise	Summary of Relevant Experience	Languages Spoken	Contact Information (email, fax, etc.)

1.4 Microinsurance-Related Events

Name of Event	Type of Event	Brief Description	Location	Contact Information (email, fax, etc.)

2. Key Lessons/Learnings from Current Experience

Based on the experience that you have listed above, please highlight three lessons or learnings that you think might be useful or relevant for others in this field. (feel free to provide more, but please do try and provide at least three). Examples of potential lessons might include: regulatory hurdles and how they were overcome, lessons regarding client interest in insurance, mechanisms to overcome obstacles in operationalizing an insurance program, etc. Please be as specific as possible.

- 1.
- 2.
- 3.

3. Key Outstanding Questions

Please list your top two or three questions relating to microinsurance. Our hope is that the lessons from others will be helpful in addressing your questions. Even if an answer is not immediately available, by raising the question you will be helping to inform the agenda for future research and experimentation. Please be as specific as possible, the more specific your questions, the greater the likelihood that any response will meet your needs.

- 1.
- 2.
- 3.

ANNEX 4: CONTACT INFORMATION

Microenterprise Best Practices/Calmeadow
Warren Brown, Microfinance Research Specialist
E-mail: wsbrown@mediaone.net

International Labor Organization (ILO)
Social Finance Unit
Peter Rademaker
E-mail: rademaker@ilo.org

International Labor Organization (ILO)
Strategies and Tools against Social Exclusion and Poverty (STEP)
Marc Socquet, Technical Advisor
E-mail: socquet@ilo.org

Microinsurance Centre
MicroSave-Africa
Michael McCord
E-mail: Microinsurancecentre@hotmail.com

WIEGO (Women in Informal Employment: Globalizing and Organizing)
Working Group on Social Protection
Martha Chen
E-mail: Martha_chen@ksg.harvard.edu