MAPFRE Economics

FINANCIAL INCLUSION IN INSURANCE

Financial inclusion in insurance

Microinsurance for inclusion

This study has been prepared by MAPFRE Economics.

Cite as:
MAPFRE Economics (2020), *Financial inclusion in insurance*, Madrid, MAPFRE Economics.

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June 2020.

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Presentation

Insurance is a financial instrument that, through risk pooling and loss compensation, contributes to the continuity of the economic process and the consolidation of capital. To this extent, greater expansion of insurance activity in the economy is a prerequisite for the increased efficiency of its performance, which will help support a sustained path of growth.

However, insurance is also a mechanism that can facilitate social mobility by allowing individuals and families to overcome shocks that, over the course of their lives, can affect their wealth and future income-generating capacities. In the absence of mechanisms that, like insurance, allow for these risks to be transferred, individual or family progress can be lost to certain adverse events. Thus, the possibility of accessing insurance products and services may be the difference between individuals or families achieving the goal of social mobility, or remaining in a situation of economic vulnerability.

In this way, the search for mechanisms that allow the population—particularly the lower-income segment—access to mechanisms to transfer the risks they face and compensate losses arising from the materialization of said risks, is an essential part of public policies geared toward improving the material living conditions of these people. Thus, the purpose of this report is to present a conceptual and international analysis of how microinsurance can contribute to the objective of financial inclusion and therefore to increasing opportunities for a very broad segment of society to have access to higher levels of well-being.

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Executive summary

The concept of financial inclusion is the process through which a society has access to different financial services (credit, savings, insurance, payment and pension services), as well as financial education mechanisms, with the goal of improving its material conditions of well-being. In the case of insurance activity, financial inclusion focuses on allowing lower-income groups of society to gain access to the products that enable them to protect their life, health and assets, through the savings and loss compensation processes which are an inherent part of insurance products.

The process of financial inclusion in insurance has been implemented, in general, through three types of products: "group insurance," "inclusive insurance," and "microinsurance." At the beginning of the 1990s, "microinsurance" began to be considered as a potential tool within the framework of different public programs and international bodies, as it tries to help improve the living conditions of the low-income groups to which it is geared. Without a doubt, "microinsurance" is a tool that can be used to protect the most economically vulnerable populations from unexpected costs due to the occurrence of an event which is able to be mutualized through insurance techniques. The fact that these institutions have included it as part of their agendas is increasing pressure on insurance companies to include it in their product offering.

In particular, two main factors can be identified that have influenced the development of microinsurance globally in recent years. The first is the willingness of public authorities to stimulate its growth as part of the design of specifically created public policies; and the second is technology, which can facilitate access to a broad group of potential policyholders (even in rural areas) at a reasonable cost.

From the analysis conducted in this report, it can be inferred that the future viability of microinsurance will depend largely on its ability to be supported by modern technological bases. Otherwise, most of the premium would need to be allocated to covering administration expenses, distribution costs, and prudential margins, which would only allocate a very small percentage of the premium to paying claims. This would prevent the insurance from fulfilling its risk mutualization and/or savings generation function; it would therefore not create value for microinsurance policyholders.

This report also highlights that IT platforms designed for the production and distribution of standardized mass-market products can support the viability of microinsurance. The aim is to take advantage of these technological platforms as much as possible in order to incorporate products into the offering with more suitable coverage for the low-income population, seeking the economies of scale that will allow these policies to be issued at a reasonable cost. The significant development of these web platforms or cellphone applications for financial services can considerably facilitate the distribution of microinsurance.

One notable case is the public initiative launched in India. In this market, microinsurance is sold through IT platforms called "Common Service Centers" (CSC), where financial services and other public and private services are also offered. The goal of these platforms (which make up the "CSC Network") is to ensure reduced operating costs, transparent digital processes, and easy accessibility to products and services, even in rural areas. Likewise, these new technologies can be extremely useful for segmenting clients through the data they provide; facilitating the digital identification of policyholders; receiving, managing and paying claims (including automatic compensation based on indices); analyzing information; detecting fraud; and preventing and mitigating risks, among other things.

This report analyzes the main markets of Asia, Africa, Latin America and the Caribbean, which have large middle-to-low income populations—the target group of microinsurance. The analysis indicates that the environment for financial inclusion is improving at a global level, with Latin America leading the way in infrastructure and regulation. Colombia, Peru, Uruguay, Mexico and India are some of the most advanced countries. However, even in these countries, there is still a long way to go.

As for the segment of insurance markets relevant for this report, temporary term Life insurance is currently dominant in the microinsurance market. However, versions of Life savings insurance, property insurance, and agricultural insurance can also be found, as well as health microinsurance—one of the insurance products with the highest demand among low-income families, but also with the lowest levels of penetration and highest levels of complexity in terms of its implementation.

Finally, the study delves into the public policy measures that could be adopted, both from a supply and demand point of view, in order to promote financial inclusion through microinsurance, breaking down the barriers that curb its development.

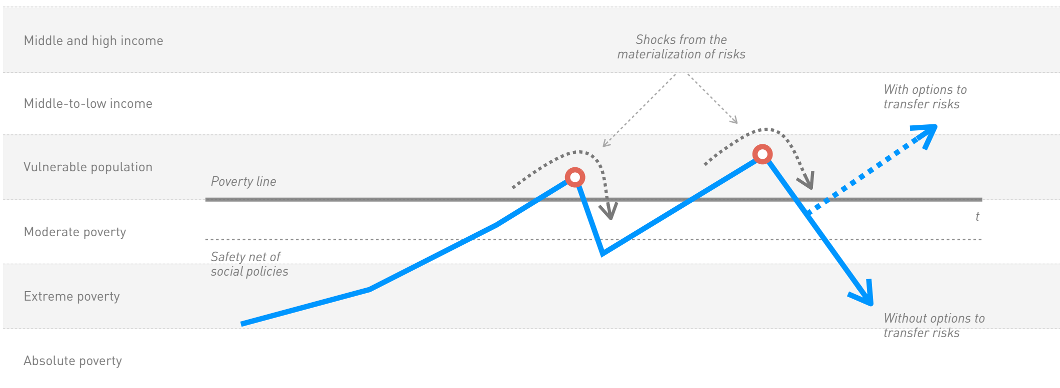
1. Financial inclusion in insurance: fundamentals

In general, the concept of financial inclusion is the process through which a society has access to different financial services (credit, savings, insurance, payment and pension services), as well as financial education mechanisms, with the goal of improving its material conditions of well-being. In the case of insurance activity, financial inclusion focuses on allowing lower-income groups of society to gain access to the products that enable them to protect their life, health and assets, through the savings and loss compensation processes which are an inherent part of insurance products.

On the journey of the lowest-income individuals and families, who seek to emerge from poverty and who move beyond the safety nets provided by social government policies, they may encounter shocks that affect their wealth and income-generating capacities. In the absence of mechanisms such as insurance, which allow for these risks to be transferred and the respective losses to be compensated, progress made by these individuals or families can be suddenly lost due to the materialization of certain risks that affect their life or wealth. Thus, in the long-term, the possibility of accessing insurance products and services may be the difference between families achieving the goal of social mobility, or remaining in a situation of economic and social vulnerability (see Chart 1).

In this way, as it is found to be closely tied to patterns of economic and social inequality, the challenge of expanding financial inclusion involves both the design and implementation of public policies and progress in the design of insurance products, in such a way that there is increased penetration of the insurance mechanism in the economy and, therefore, in levels of well-being. For this reason, the means by which this process of financial inclusion in insurance can be carried out are connected to the ways access is provided to specific groups, especially those at the bottom of the population pyramid.

Chart 1
Effect of risk materialization on the path of low-income populations to improving well-being



Source: MAPFRE Economics, from Monique Cohen and Jennefer Sebstad, "Reducing vulnerability: the demand for microinsurance," *Journal of International Development* (2005)

1.1 Mass-market insurance, inclusive insurance, and microinsurance

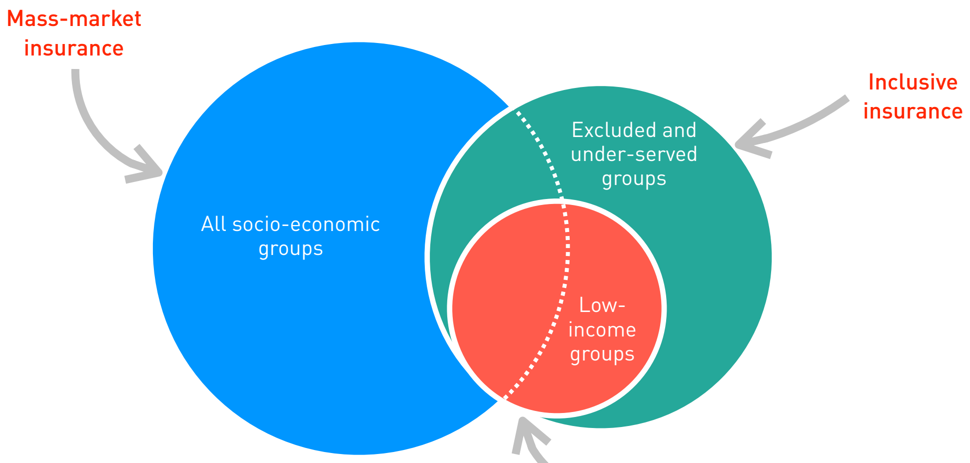
In recent years, one of the tools that has been associated with the process of financial inclusion in insurance is microinsurance. The term "microinsurance" is used to refer to insurance for low-income populations, which may fall within a broader category called "inclusive insurance" — insurance intended for groups generally excluded or under-served by the insurance market (see Chart 1.1).

By contrast, "mass-market insurance" encompasses products designed for sale through far-reaching distribution channels, in terms of the target population, and standardized products that are easily understandable by their target audience. For example, health insurance designed for distribution through electronic markets in the United States (known as "exchanges") can be considered "mass-market insurance." Therefore, it is a much broader universe than that of "inclusive insurance" and "microinsurance." However, it is important to note that some of the features of "mass-market insurance," such as simplicity and easy distribution, are completely usable by "microinsurance."

Until now, "microinsurance" was not normally part of the business models of most traditional insurance companies. The main reason seemed to have to do with the fact that it was unattractive as a potential market, given its poor profitability, the non-traditional distribution mechanisms, and the difficulties in estimating its demand. However, two factors seem to have influenced the development of microinsurance in recent years. The first is the willingness of public authorities to stimulate its growth as part of the design of specifically created public policies; and the second is technology, which can facilitate access to a broad group of potential policyholders (even in rural areas) at a reasonable cost.

At the beginning of the 1990s, "microinsurance" began to be considered as a potential tool within the framework of different public programs and international bodies, as it tries to help improve the living conditions of the low-income groups to which it is geared. Without a doubt, "microinsurance" is a tool that can be used to protect the most economically vulnerable populations, small businesses, farmers, stockbreeders, and companies from unexpected costs due to the occurrence of an event which is able to be mutualized through insurance techniques. In this regard, the fact that these institutions have included it as part of their agendas is

Chart 1.1
Taxonomy of mass-market and inclusive insurance



Source: MAPFRE Economics (with data from IAIS and ASSAL) increasing pressure on insurance companies to include it in their product offering[1].

Through "microinsurance," insurance techniques allow protection to be offered to these vulnerable groups against risks of death, accidents, illness, damage to assets, or even catastrophic risks, with the coverage and costs suited to their economic circumstances. The typical coverage offered by "microinsurance" is usually associated with high-impact and low-frequency risks. In this way, "microinsurance," combined with other social and financial government policies, can support these population segments faced with the occurrence of these types of events, preventing these shocks from causing setbacks on these families' paths to increasing their income levels.

Within the low-income population, there is a segment that lends its services through formal labor contracts; therefore, there is usually a mandatory social security system that covers accidents, disability and death. For this reason, "microinsurance" has most potential when geared toward low-income populations belonging to the informal economy who, in emerging countries, tend to be considered a target group for "microinsurance" programs. Most of the time, the most vulnerable groups are found in rural areas, which makes access to traditional insurance distribution channels difficult, as they tend to focus on urban areas as a matter of cost efficiency. However, new digital distribution channels are helping to break down this barrier.

1.2 Microinsurance and the barriers to financial inclusion

As indicated before, financial inclusion in insurance focuses on establishing policies and mechanisms that expand insurance access, which offers protection and compensation against basic risks (life, health, accidents, property and liability), to groups excluded from or under-served by society. Gearing its policies toward both excluded and under-served populations, inclusive insurance encompasses not only microinsurance (traditionally intended for low-income groups), but also a segment of insurance offered through mass-selling mechanisms ("mass-market insurance"), geared toward various portions of the population.

Because of its features, "inclusive insurance" is one of the main tools for bridging the Insurance Protection Gap (IPG) in emerging economies, as it acts in two ways. In the short-term, it raises demand for insurance by bringing new segments of the population (whether excluded or under-served) within the system of protection and compensation provided by insurance. Meanwhile, on a more mid- to long-term horizon, inclusive insurance is also a means of financial education that will advance the social and economic development of the population and ultimately increase demand for insurance.

However, financial inclusion in insurance faces several barriers. These obstacles can be classified, for analytical purposes, into two categories: those that have to do with limitations affecting insurance demand, and those which concern aspects related to the supply of insurance services (see Chart 1.2-a).

Demand-related barriers

On the demand side, there are three main obstacles that must be addressed in order to achieve greater financial inclusion in insurance: (i) the low income level of the target population; (ii) the seasonality of available income, and (iii) the low level of financial education.

The first of these obstacles has to do with the *low income level of the target population*, particularly in the case of the excluded segment, which represents one of the biggest challenges in bridging the insurance gap. So long as families' available income is insufficient to adequately cover basic needs, it will be difficult for them to afford financial protection products.

The second aspect has to do with the *seasonal nature of available income*. Groups excluded from insurance protection in emerging markets, due to their link to the labor markets and the type of economic activity they carry out, typically receive income on a highly seasonal basis, which has implications for the

Chart 1.2-a
Barriers to financial inclusion in insurance

Source: MAPFRE Economics

traditional insurance business models, particularly regarding the premium payment mechanism.

And finally, the last demand-related factor is the *low level of financial education* among target population groups, which implies a lack of awareness of the need to have protection against the effects of risk materialization, and of how these can affect the path to improving personal and household well-being.

As indicated above, demand-related factors are structural, associated with a country's pace of economic growth, with its income distribution structure, and with matters related to the lack of in-depth formal education mechanisms in emerging economies.

Supply-related barriers

On the other hand, there are four relevant elements to consider in terms of supply-related obstacles in order to progress more quickly in insurance-related financial inclusion processes within emerging markets: (i) unsuitable business models; (ii) prevailing characteristics in the design of insurance products; (iii) the need for new distribution mechanisms, and (iv) regulatory aspects.

Firstly, *unsuitable business models* prevent effective access to target populations. Business models (for traditional commercial insurers, mutuals and cooperatives, and even micro-insurers and new participants in insurance markets) need to adapt to the specific conditions of markets where they want to expand levels of inclusion.

Even though this suitability must comply with the particular conditions of each market, as well as the specific strategy of the companies that hope to address these markets, there seems to be a set of basic aspects to consider:

(i) The individual profile of the client (low level of available income, low level of awareness regarding the risks they face and how to protect themselves against them, the nature of their consumption expenses, location difficulties, informal work schemes, irregular income sources, etc.), which differs from traditional consumers that are already served by the insurance industry.

(ii) The need to use non-traditional distribution channels.

(iii) The particularities of the inclusive insurance product cycle, which differs from traditional products.

(iv) The need for the intensive use of technology and digitization as ways to cut operating and transaction costs.

The second supply-related obstacle has to do with the *prevailing characteristics of the insurance product design process*. Like in the previous case, the design of the "inclusive insurance" product should consider certain special characteristics that do not necessarily exist in the design process of traditional value propositions (see Chart 1.2-b). In this regard, "inclusive insurance" products require special treatment, which includes, among other things:

(i) a complex rate establishment process (due to a lack of sufficient information to measure the risks of the target population);

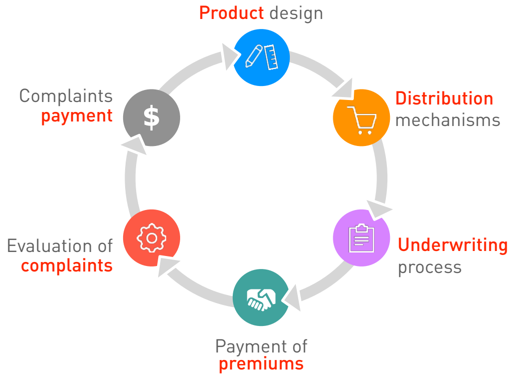
(ii) the determination of well-defined and limited coverage, as well as a reduction of the number and type of product exclusions (this allows for simplification and deals with the issue of low financial education);

(iii) flexible premium-payment mechanisms (to deal with the issue of seasonal available income), and

(iv) the establishment of simple, fast processes for the payment of indemnification derived from the product. Innovation plays a crucial role in the design of inclusive insurance products, as these are products that cannot necessarily be adapted from traditional products; rather, they require new formulas suitable for a target population with different features.

Thirdly, greater financial inclusion requires *new distribution mechanisms*. Until quite recently, the distribution channels used by the insurance industry were rather traditional (agents and brokers). Recently, however, the incorporation of other channels (bancassurance, agreements with commercial entities and non-financial service providers, as well as the introduction of digital channels) has had the effect of reinforcing the multi-channel concept.

Chart 1.2-b
Inclusive insurance product cycle



Source: MAPFRE Economics

In terms of "inclusive insurance," it seems necessary to go even further. The multichannel concept should be expanded with other distribution methods (use of micro-finance institutions, cooperatives, rural savings banks, pawnshops or pawnbrokers, banking and non-banking correspondents, agreements with client service providers, NGOs, public utility companies such as gas and electricity, among others) that better suit the conditions of the target population. All of this seeks to reduce transaction costs and allows "inclusive insurance" products to be affordable for the target population.

Lastly, within the framework of the design and implementation of public policies, *regulatory aspects* are particularly relevant when encouraging financial inclusion in insurance. This aspect is addressed specifically in section 4 of this report.

1.3 Global outlook of financial inclusion and microinsurance

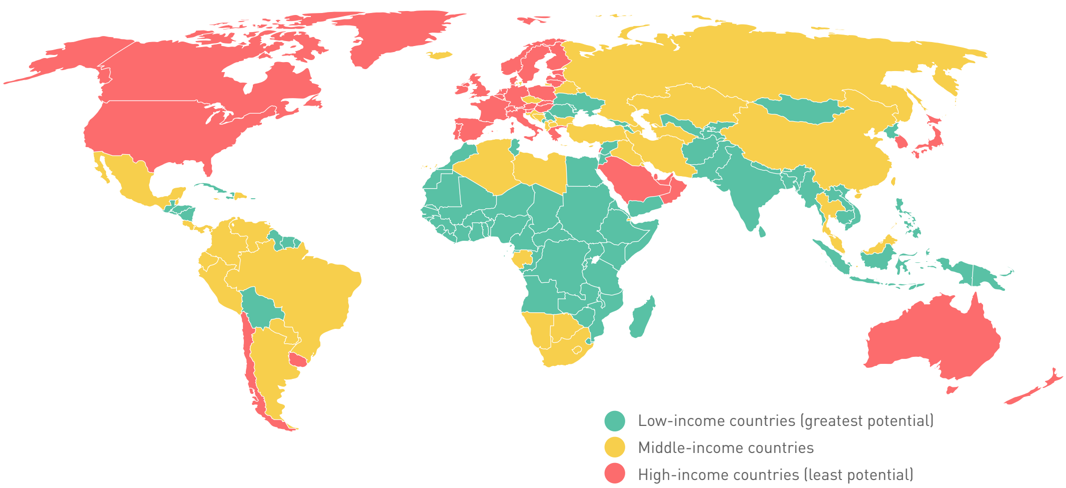
The World Bank's data on financial inclusion, through the Global Findex Database[2], can serve as an indicator of a country's development potential in terms of financial inclusion, under the rationale that this potential increases insofar as the level of income is lower. Chart 1.3-a shows, in yellow and green, middle and low income countries, following the World Bank's classification. These countries, which make up the majority of the world's population and land, are reference markets with the highest potential for the development of "inclusive insurance."

In terms of inclusion, it is worth noting the investigation work carried out by "The Economist Intelligence Unit," with the support, among other institutions, of the Inter-American Development Bank's (IADB) innovation lab and investment corporation. This analysis unit publishes an annual report with indicators to assess the environment for financial inclusion in more than fifty countries, creating an index that takes five aspects into consideration: (i) the government and support of policies; (ii) stability and integrity; (iii) products and points of sale; (iv) consumer protection, and (v) infrastructure[3]. The 2019 report concludes that the global environment for financial inclusion is improving, with Latin America being the leading region for financial inclusion in terms of infrastructure and regulation. Among the first five countries of its ranking, there are four Latin American countries (Colombia is number one, followed by Peru, Uruguay and Mexico); India comes in at fifth (see Table 1.3 and Chart 1.3-b).

With regard to microinsurance, at the moment there are significant constraints concerning the information that can be obtained on the current global situation. In general, the financial and statistical information published by regulatory and supervisory bodies does not consider the identification of these types of products.

Nevertheless, with these limitations, a more complete current outlook on the state of the population's coverage through this type of insurance is offered and updated by the Munich Re Foundation and the Microinsurance Network, which is the most extensive private network in terms of the number of its members and their dedication to the awareness and promotion of microinsurance, offering a common view of the majority of the initiatives being developed in this field[4]. Another organization is also worth highlighting: the Microinsurance Centre (Milliman Research), which dedicates substantial efforts to studying more than 100 poor countries across the world with low-income inhabitants. Through this study, it has determined that only approximately 3% of these people currently have access to "microinsurance"[5].

Chart 1.3-a
Financial inclusion development potential based on income level



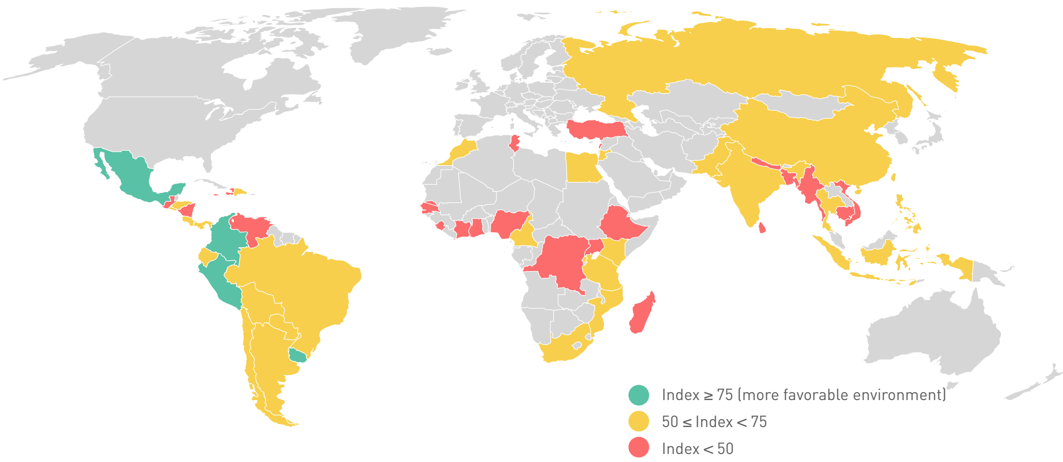
Source: MAPFRE Economics (with data from the World Bank)

Table 1.3
Ranking of financial inclusion environment: global microscope 2019

Ranking	Country	Score
1	Colombia	82
2	Peru	80
3	Uruguay	76
4	Mexico	74
5	India	71
5	Philippines	71
7	Argentina	70
7	Indonesia	70
9	Brazil	69
10	Rwanda	68
11	Chile	65
11	China	65
13	El Salvador	63
13	South Africa	63
15	Tanzania	62
16	Paraguay	61
17	Costa Rica	58
18	Bolivia	57
19	Panama	56
19	Russia	56
21	Pakistan	55
22	Dominican Republic	54
22	Honduras	54
22	Kenya	54
22	Thailand	54
26	Ecuador	53
26	Mozambique	53
28	Jordan	52
29	Cameroon	51
29	Egypt	51
29	Morocco	51
32	Trinidad and Tobago	50
33	Turkey	49
33	Vietnam	49
35	Ghana	48
35	Jamaica	48
37	Senegal	47
38	Nicaragua	45
39	Nepal	44
40	Madagascar	43
40	Nigeria	43
42	Sri Lanka	42
43	Guatemala	41
44	Lebanon	40
45	Ethiopia	39
46	Bangladesh	38
47	Cambodia	37
47	Uganda	37
49	Haiti	34
50	Ivory Coast	33
50	Myanmar	33
52	Venezuela	32
53	Tunisia	30
54	Sierra Leone	28
55	Democratic Republic of the Congo	21

Source: The Economist, Intelligence Unit. *Global Microscope 2019: The enabling environment for financial inclusion*

Chart 1.3-b
General environment for financial inclusion in 2019



Source: MAPFRE Economics (with data from The Economist, Intelligence Unit. *Global Microscope 2019: The enabling environment for financial inclusion*)

1.4 The role of new technologies

Microinsurance, by definition, encompasses products intended for people, families, and businesses that fall within the low-income segment of the population. Therefore, these types of products should be supported by modern technological bases, with the goal of achieving significant reductions in management and transaction costs and, consequently, making them viable for the population for which they are intended. Otherwise, most of the premium would need to be allocated to covering administration expenses, distribution costs, and prudential margins, which would only allocate a very small percentage of the premium to paying claims. This would mean that the insurance would not fulfill its risk mutualization and/or savings generation function, and would therefore not create value for the policyholders.

In this regard, technological platforms that have been developed for the production and distribution of standardized mass-market products can support the viability of microinsurance. The aim is to take advantage of these technological platforms as much as possible in order to incorporate products into the offering with more suitable coverage for the low-income population, seeking the economies of scale that will allow these policies to be issued at a reasonable cost. The significant development of these web platforms or cellphone applications for financial services can considerably facilitate the distribution of microinsurance.

Furthermore, together with the platforms of major insurance and technology companies, other digital platforms developed by startups are emerging (independent or backed by major technology and/or insurance companies), specializing in these types of group and inclusive products. As a matter of fact, strategic alliances with telecommunications companies (mobile network operators, or MNOs) are commonly used to distribute microinsurance in emerging markets. Some "peer to peer" (P2P) microinsurance platforms have also emerged. These are not linked to any pre-existing insurance company and are geared toward groups with similar insurance demands, establishing group funds in order to serve these policyholders. The consideration of these types of associations as insurance companies depends on the regulatory framework in force in each market.

From this technological standpoint, there are several elements that can influence the future development of microinsurance. Among them are the following:

- Electronic money (especially for unbanked populations).
- Information obtained through artificial satellites and social networks.
- Sensors (wearables, telemetry), Internet of things (IoT)
- Video calls (especially for health insurance).
- Cloud services (data storage and computing).
- Macro data analytics, artificial intelligence and machine learning (chatbots, call center management, pricing, among other applications).
- Digital platforms (on the web or through cellphone applications).
- Blockchain (still at an early stage).

The lack of information on insurance policyholders has been identified as one of the major issues when it comes to issuing microinsurance policies. Therefore, these technological elements may be extremely useful when segmenting clients through the data they provide, as they prevent the absence of such data from resulting in surcharges, which can significantly raise the price of products. In addition, they facilitate the digital identification of policyholders; the receipt, management and payment of claims (including automatic compensation based on indices); the analysis of call center calls, chatbots, information from social networks; the detection of fraud; as well as the prevention and mitigation of risks, etc.

Electronic money is particularly significant for the development of microinsurance. The policy contracting of these types of products via prepaid cell phones is a significant phenomenon, as it is increasing the penetration of microinsurance in regions such as Africa, Latin America and emerging countries in Asia. Additionally, the digital platforms used to carry out shipments and electronic sales can also contribute to the development of this type of product.

1.5 *Insurtech* inclusion initiatives

There are numerous innovation and financial inclusion in insurance initiatives through what are called *Insurtechs*. The information supplied along these lines by the Centre for Financial Regulation and Inclusion (CENFRI) is worthy of note. It provides an up-to-date view, through its *tracker*[6], of the different initiatives that are active in emerging markets in Africa, Asia and Latin *America*. Numerous examples of *Insurtechs* can be found in this dynamic information, and they are continuously increasing.

One particularly noteworthy organization is the Swedish company BIMA, which developed a mobile insurance platform in 16 countries, allowing for mobile phone access to insurance policies, including health microinsurance. Clients can sign up through the platform, and deductions can be taken from a prepaid credit in order to pay for premiums. Founded in 2010[7], Milvik AB, also known as BIMA Mobile, is a microinsurance company headquartered in Stockholm. It currently operates in countries such as Bangladesh, Cambodia, Ghana, Sri Lanka, Senegal, Tanzania, Indonesia, Fiji, Papua New Guinea, Haiti, Paraguay, Honduras, and Pakistan, and has approximately 31 million users. It was a pioneer in the mobile insurance model, offering affordable insurance and creating a system to easily understand the product. A large part of its business is driven by partnerships with cellphone operators or financial institutions in emerging countries. Its products range from life, accident and hospitalization insurance to mobile medical insurance. The channel offers a completely digitized underwriting, payment and claims process, which clients can carry out on their cellphones.

These new companies, heavily backed by technology platforms, use data that allows them to better direct their marketing, such as Cignifii (in Sub-Saharan Africa), which uses voice calls, cellphone credits or interactions on social networks to assess consumers' profiles and behaviors. Furthermore, there are new digital platforms emerging that facilitate data collection, such as Discovery Insure in South Africa, which allows consumers to upload images on the platform in order to add them to claims. In the case of agricultural property taxes, data from weather station sensors (PlaNet Guarantee, Senegal) can be used to provide the necessary information to make a claim, without needing to wait to receive data from consumers in order to verify.

Another company that stands out is MicroEnsure, which began to develop its model in 2002. Through its model, insurance coverage is initially provided to clients for free, the idea being that these clients will assess the coverage and decide to pay for it later on. MicroEnsure is at the forefront of bringing insurance to the mass market through cellphones. In 2013, MicroEnsure Asia established itself as a joint venture between the Telenor Group and the British Company MicroEnsure Holdings Limited. MicroEnsure is a provider specialized in insurance for the mass market, with more than 42 clients in the African, Asian and Caribbean markets. It provides a range of life, health and property products through a series of distribution partners that include microfinance companies, cooperatives and mobile network operators[8]. For example, in Kenya, MicroEnsure has partnered with the mobile network operator Airtel and Pan Africa Life Assurance to offer free medical coverage to Airtel clients based on the amount of monthly airtime used. Pan Africa Life underwrites the risk and MicroEnsure handles services such as the operation of the digital technology platform. Additionally, MicroEnsure uses the teleoperator's network to send text messages that contain policy information. The program operates through a small monthly cellphone top-up charge, which allows the telephone company's clients to receive hospitalization, life and accident coverage; this coverage increases if more money is spent on top-ups monthly. At the end of the period operating under this model, clients have the option to receive additional benefits in exchange for paying a small monthly amount as a premium. The goal is to encourage clients to use the phone network, while simultaneously providing low-cost insurance to low-income groups.

In Kenya, Hello Doctor, in collaboration with CBA and Cannon Assurance, offers a health solutions package for Safaricom M-Pesa clients, called Semadoc, which is based on a cellphone subscription service. In this case, the hospital coverage underwritten by Cannon Assurance is supplemented with 24-hour access to doctors by text message or phone call, and clients can obtain prescriptions over the phone. Twice a day, clients receive health advice via text message. Through M-Pesa, a health account is opened when individuals sign up with Semadoc for health-related savings. This account is used to pay the monthly Semadoc subscription fee and to make payments at health centers. Individually, people registered with Semadoc can apply for healthcare loans, which have favorable repayment conditions and can be paid directly at the facility. Hospital coverage is provided digitally via cellphones, through which information on benefits is provided, as well as the terms and conditions of coverage.

2. Microinsurance products

The expansion of protection levels for low-income groups through microinsurance is a strategy that clearly focuses on the types and features of the insurance products intended for this target population. With regard to the first point, those that best cover the risk profile of policyholders should be considered, while simple features and conditions should be considered for the second point.

2.1 Types of products

The types of microinsurance products that can commonly be found in the markets at present[9], classified according to the level of difficulty and success in their implementation, are illustrated in Chart 2.1.

Life Protection insurance

Temporary term Life insurance is currently dominant in the microinsurance market. Telecommunications companies (through cellphones) and micro-finance institutions (where they have been developed) facilitate its distribution within their usual product portfolio (in which microloans, savings accounts, and loan repayment microinsurance—also called credit life insurance—prevail). This is a temporary insurance policy in the event of the death of the insured party, in order to protect their family. This policy is often combined with additional accidental death or disability coverage and/or funeral expense coverage, both for the policyholder and the family members designated by the policyholder. Funeral coverage normally consists of a sum of money, although service provisions are occasionally offered. Some versions also offer benefits for the diagnosis of serious illness and/or maternity. The insured sum and the premiums are determined in consideration of the group for which the insurance is intended (low-income population), with premium limits for a single policyholder. There also tend to be exclusion periods for pre-existing illnesses and an eligibility age limit.

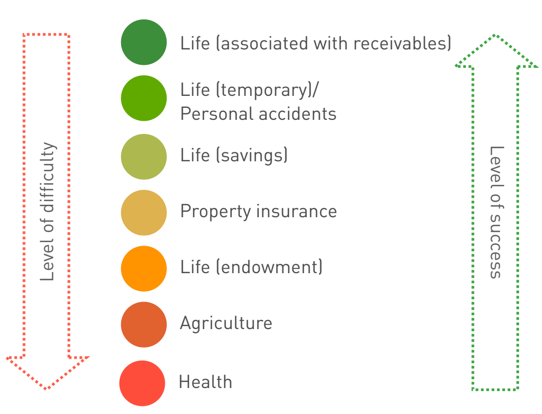
Life insurance linked to savings

While they are not common, as they are more complex to manage, microinsurance products that include different savings elements can be found in some emerging countries. In the markets in which they are sold, they tend to be simple risk products with some savings-related element. In India, for example, more complex savings microinsurance versions are sold with periodic premiums. These products combine death capitals with premium reimbursement at maturity, capitalized with a specific interest rate and a surrender value with variable rates, which increase over time, as an incentive to remain in the contract.

Property insurance

This type of insurance can be extremely useful for the low-income population, as it offers protection against damage to homes, business inventories, or even farming and livestock equipment, which tend to be stored in homes or adjacent structures. Usually, it forms part of the product range of microinsurance institutions. Typical policies cover

Chart 2.1
Most common types of microinsurance



Source: MAPFRE Economics (with data from the International Labor Organization) fire and water damage, but they also occasionally cover catastrophic damage caused by nature, such as storms, flooding, and avalanches, or damage caused by humans, such as during riots or military interventions, and certain other situations. As with other forms of microinsurance, limits on premiums and insured sums are determined in consideration of the groups for which the policies are intended (low-income population).

Agricultural Insurance

Although it still presents significant challenges, the outlook for agricultural microinsurance has evolved considerably over the last two decades, due to two different elements: (i) greater government participation and (ii) the use of indices to define coverage. The existence of rural agricultural cooperatives and other similar organizations has also contributed to its development.

Particularly, index-based agricultural microinsurance is an alternative to traditional indemnity insurance, in which indemnification is paid based on the actual loss incurred by the policyholder, which must be assessed individually. In the case of index-based insurance, compensation is paid to policyholders automatically if it remains within the limits of the parameters established in the contract. It is mainly used in agriculture, but it also occasionally applies to other business lines.

Health

Health microinsurance is one of the insurance products with the highest demand from low-income families, although it continues to have the lowest levels of penetration and highest levels of difficulty in implementation. The most common modalities are those that offer daily compensation in case of hospitalization and/or single payments in the event the policyholder is diagnosed with a serious illness. Nevertheless, more comprehensive versions are also sold, which include medical information services, consultations, as well as prescriptions for medical treatments and monitoring over the phone, unless an in-person medical visit is considered necessary.

2.2. Product features

The main features of microinsurance products are summarized in Table 2.2. From the analysis of these features, it is worth highlighting the various degrees of complexity in implementing these products. Therefore, inclusion policies should begin by promoting the introduction of microinsurance that offers lower degrees of complexity, and progress in different stages toward those with greater complexity.

As mentioned before, a key aspect in the success of microinsurance concerns the process of determining the premium, which must be affordable for the target groups. Within this, the microinsurance underwriting process, and thus the determination of technical safety margins that must be included in the risk premium, is essential. As illustrated in Chart 2.2, in the short-term, and faced with the lack of sufficient information on the frequency and severity of the risks to cover, these margins can weigh negatively on the price of these products. However, in any case, it is necessary for these margins to be adjusted as sufficient information is collected on the particularities of the risks covered, so that the price is affordable for the groups of society toward which this insurance is geared.

Moreover, cutting transaction costs is an additional way to make microinsurance products accessible to vulnerable groups of the population. This requires supplementing traditional distribution means with non-traditional channels, such as banking and microfinance networks, sales networks, public utility bills, and new distribution networks based on non-traditional intermediaries, as described in the sections above. Additionally, the use of technology is essential to reduce costs not only for contracting the product and the payment of the associated premium, but also for its management and renewal, and for the payment of the corresponding indemnification.

Finally, it should be noted that, as it is geared toward the vulnerable population in order to deal with the short-term effects of shocks

Table 2.2
Main features of microinsurance

Item	Main features

Payment of premiums	• The payment period can be split, considering the irregular income flow of insurance policyholders.
	• Premiums can be:
	  • Paid in cash.
	  • Deducted from receivable payments.
	  • Deducted from bank accounts.
	  • Deducted from pay stubs for other services.
	  • Collected through non-traditional intermediaries.

Product design	Simple legal and technical design.
Contractual documentation	Simplified and easy to understand.
Coverage	Clearly defined insured sums and benefits.
Underwriting process	• Rates fixed according to the experience of the mutual insurance companies served. • With minimal exclusions or restrictions. • With adjustment of technical safety margins as information is collected on the specific features of the risks covered.

Distribution channels	• Use of non-traditional distribution channels to reduce transaction costs:
	  • Banking and micro-finance networks.
	  • Sales networks.
	  • Utility bills.
	  • New distribution networks based on non-traditional intermediaries.

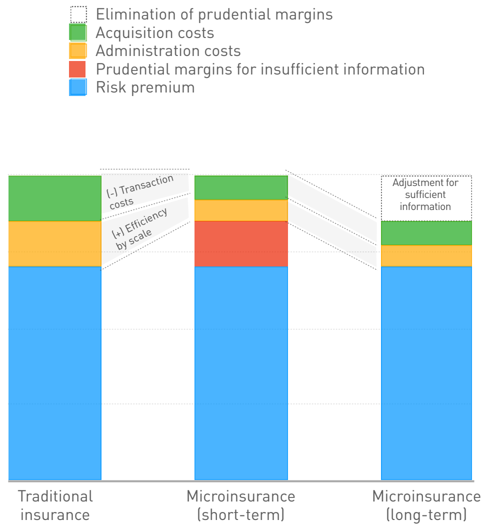
Product management	• Use of technology to reduce costs for:
	  • Product contracting and premium payments.
	  • The management and renewal of the product.
	  • Payment of indemnification.

Payment of indemnification	• Almost immediate. • With specific and minimal documentary requirements.

Source: MAPFRE Economics

caused by the materialization of risks, microinsurance should be designed in such a way that indemnification is paid almost immediately, with specific and minimal documentary requirements.

Chart 2.2
Expected medium-term development in the pricing of microinsurance



Source: MAPFRE Economics

3. Review of relevant markets

3.1 Asia

China

One of the Chinese government's explicit public policy objectives is to increase the level of insurance penetration in the economy. There is no data regarding the relevance that microinsurance may have in this market, but it is not common to find it within the product offering of insurance companies that operate in this country. However, there are Life insurance policies linked to microloans that are sold through the postal system, micro-credit constitutions, and rural credit cooperatives, although the level of development is low. Other personal microinsurance lines are also sold through what are known as "people's committees"[10].

However, there are ongoing initiatives that can be utilized in the future to increase the penetration of microinsurance in China. For example, in 2018 the technology company ZhongAn Technology launched an IT health insurance platform for the Chinese insurance industry, which uses artificial intelligence algorithms[11]. This company consolidates and utilizes a medical database, which is seldom available to insurance companies otherwise. This database can be extremely useful for pricing microinsurance, as it provides access to medical records, as well as for supplying data on medical directories and hospitals, as well as other services.

India

India is one of the countries that wishes to boost the development of microinsurance as a coverage tool for low-income individuals. It has established a system of minimum annual quotas, in terms of the percentage of premiums and the number of insured persons, that it imposes on insurance companies operating in this market. This provision has partially stimulated its development, which continues, however, to be very weak, as regulatory provisions of this kind do not influence the key aspects that can make microinsurance both affordable for the insurers offering it and beneficial for low-income populations. Insurance companies dedicate few resources to innovation in this area and, from a supply perspective, see the lack of data and suitable distribution channels as the main issues for its development.

It should be noted, however, that savings microinsurance with periodic premiums is sold in this market through "Common Service Centers" (CSC). CSCs are digitized IT platforms created for public authorities to offer financial services, including insurance, and other public and private services. The goal of these platforms (which make up the "CSC Network") is to ensure reduced operating costs, transparent digital processes, and easy accessibility to products and services, even in rural areas. All of the products sold through this network must include the letters "CSC" at the beginning of their name. Insurance products labeled "CSC" must comply with special guidelines developed by the insurance supervisory authority[12].

Indonesia

In Indonesia, there is also willingness on the part of public authorities to develop microinsurance. In this regard, in 2013 an initiative was launched known as "The grand design microinsurance blueprint," an action plan to understand the market, build the microinsurance industry, and improve the public perception of microinsurance. However, although it seems to be growing, it is still under-developed. The main issues identified by insurance companies are high development costs, an inadequate capital base, and the lack of cost-efficient distribution channels[13].

Philippines

In the case of the Philippines, public authorities have also expressed their interest in promoting microinsurance. In 2006, "Mutual Benefits Associations" (MBAs) were introduced in the country as a new type of microinsurance provider, becoming the main catalyst for development. These served to formalize many micro-finance and non-governmental organizations, which had previously been operating informally. The microinsurance industry has been developed with the backing of the Ministry of Finance, with its policy created to promote financial inclusion, facilitating coordination and collaboration between different government agencies. It should be noted that both the Insurance Commission and local business associations were also heavily involved in this project.

With respect to distribution channels, the Philippines is unique insofar as a significant portion of microinsurance products is sold through pawnshops, which have a vast network of establishments throughout the country. According to the report developed by Milliman Research[14], Cebuana Lhuillier is the largest company of this kind, with around 1,800 branches throughout the nation and selling over one million microinsurance policies a month. Since 2017, approximately 30% of Filipinos insured with microinsurance have taken out their policy with this company[15].

However, according to the Milliman Research report, the industry is still facing a series of important challenges. The Philippines are located in one of the most natural disaster-prone areas of the world, which makes it difficult to underwrite appropriate reinsurance contracts. Furthermore, the use of cash is deeply ingrained in the population, therefore the use of alternatives such as electronic money is not a viable solution. As such, the mobile network operator (MNO) distribution channel has not taken off in the Philippines. This is also compounded by the fact that its mobile network market is run by a duopoly whose two operators have not shown interest in insurance innovation.

Bangladesh

The penetration of cellphones in Bangladesh (as in other Asian countries) is widespread, which contrasts with its low level of bank usage. Therefore, microinsurance is mostly distributed through mobile network operators (Robi Axiata and Grameenphone). In particular, technological service provider BIMA is quite active in microinsurance marketing in the country, partnering with mobile operators to do so.

3.2 Africa

Africa is home to over one billion people, and it is estimated that around 400 million of them still live in extreme poverty. According to the report developed by Microinsurance Network, "Landscape of Microinsurance in Africa 2018," the insurance market in Africa is very fragmented. Despite the role that insurance could play to recover and contribute to its economy, insurance for retail businesses is largely underdeveloped. The little data obtained on Africa impinges on global figures, but according to data provided by 100 insurers in this study, only 2% of the estimated 700 million low-income individuals is covered with microinsurance products, for a total of 420 million dollars in premiums (less than 1% of the total amount of premiums in Africa).

Credit-life, life, and funeral products make up around 60% of the microinsurance market, although significant growth has been observed in health insurance. Life insurance was one of the first microinsurance products in Africa, making up a significant portion of the market. At the beginning of 2014, health insurance began to be used as a supplement by providers such as MicroEnsure, growing as an independent product and also forming part of a product package that offers life or accident coverage. Additionally, new services have been added to simple health coverage, such as telemedicine which, due to its positive reception among clients, has transformed health insurance into an important product for insurers.

Because of the increase in the use of cellphones to make payments, over the last few years new opportunities have emerged to distribute microinsurance in partnership with mobile network operators (MNOs). These platforms offer a wide variety of payment methods and can even help reach specific potential clients who would be difficult to access through other channels. It is possible that digital platforms will become more significant distribution channels in the future as they grow in popularity and accessibility as a result of smartphones becoming increasingly more available. The company BIMA, for example, is already operating under this model in Tanzania and Ghana. This method may allow MNOs to reemerge as a predominant distribution channel.

Other companies that have proven to be viable, using modern technological platforms to market microinsurance, are MicroEnsurance and Pula[16]. MicroEnsurance uses mobile technology, partnering with major telecommunications companies to provide microinsurance. Its clients can take out insurance via their cellphones, send claim documentation using WhatsApp, and receive payments through mobile money services. Pula, for its part, uses satellite technology to monitor rainfall patterns and other variables, in order to provide index-based insurance to small farmers, even in remote locations. This company partners with leading insurance companies, seed and fertilizer distributors, and credit cooperatives to create and distribute its products. Both companies operate in Africa and Asia, and in 2017 alone, they provided crop and livestock insurance coverage to 611,000 farmers in Kenya, Rwanda, Uganda, Nigeria, Ethiopia, and Malawi[17]. However, there is still a long way to go, as it is estimated that less than 1% of small farmers in Africa have agricultural insurance.

Ghana

In Ghana, "Tigo Family Care: Free Mobile Life Insurance" microinsurance[18] was introduced as an incentive to use the Tigo SIM card, which was offered for free at first. Afterward, the switch by clients from free products to optional paid products saw some success, and it is estimated that Ghana currently has more than four million insurance policies tied to mobile network operators. Ghana is considered a success story in the regulation of microinsurance, as the country issued rules of conduct for microinsurance and mobile insurance in 2013 and 2017, respectively[19].

Kenya

In July 2019, Kenya incorporated a definition of microinsurance into its insurance regulatory law. The Insurance Regulatory Authority (IRA) has indicated that the incorporation of this definition will allow for the future development of independent regulations for microinsurance. Despite the fact that the microinsurance regulation has still not been implemented, regulatory guidelines have been established for the approval of microinsurance products since 2017. Additionally, Kenya has established measures to promote the market's development, such as the creation of an innovation center to support insurance innovators in the market, providing them with legal support, office space, and other support functions.

South Africa

South Africa is the country which currently dominates the insurance market in the African continent, representing approximately 70% of the region's gross premiums and 84% of the region's life insurance premiums. Finscope surveys have clearly indicated an improvement in financial inclusion over the years, especially as regards access to banking services. However, financial inclusion continues to be insufficient in terms of access to insurance products[20]. Currently, the cornerstone of microinsurance in South Africa is funeral policies with several leading policy providers, who offer coverage at reduced rates[21]. Considering that the majority of the country's population falls within the low-income group with inadequate access to insurance coverage, the Insurance Act 18 of 2017[22] introduced a legal framework regarding microinsurance for the purpose of promoting the existence of more formal providers in this area and of expanding coverage options. The objective is to strengthen consumer protection rules so that microinsurance can provide low-income South

Africans with access to affordable, fair insurance products.

Tanzania

In the case of Tanzania, the goal of the government, through the Tanzania Insurance Regulatory Authority (TIRA), is to create a regulatory environment conducive to increasing the provision of insurance services to Tanzanians. This regulatory environment is expected to include a microinsurance regulation, which is currently in the development phase[23].

Uganda

Lastly, the development of microinsurance is still at a very early stage in Uganda. However, it is worth nothing that, in 2019, the Insurance Regulatory Authority authorized the operation of the first insurance company specialized in microinsurance under the name "Grand Microinsurance Ltd"[24].

3.3 Mexico

The microinsurance market in Mexico is one of the most advanced in Latin America, with a specific regulation existing for this type of product. For a product to be officially classified as microinsurance, the National Insurance and Bonding Commission (CNSF), Mexico's regulatory authority, imposes a limit on premiums and insured sums. Given the size of the potential target population and the difficulty in reaching the rural sector, in particular, Mexican insurers have mainly focused on mass marketing. In addition to micro-finance institutions, insurers market products through public utility companies, which use the government's conditional transfer programs, and organizations that work with the migrant community.

The use of alternative channels significantly increases sales of microinsurance, but it also makes it difficult to differentiate between mass-market insurance and microinsurance. Access to insurance through micro-finance institutions is linked to the granting of a loan. In this respect, microloans, microsavings, and microinsurance fall within the range of products offered to members of different micro-finance institutions. This channel is working, as evidenced with its gradual expansion, according to data from the Mexican Association of Insurance Institutions.

Mexico provides proportionate treatment for two different types of products: group insurance and microinsurance. In this regard, the CNSF has established clear definitions for both microinsurance and for mass-market insurance[25]. The definition of group insurance products is similar to that of microinsurance, except that in the case of microinsurance, maximum coverage and premium limits are specified and the focus is on the low-income population.

Additionally, the CNSF has established proportionate registration requirements and procedures for mass-market insurance and microinsurance intermediaries. In the case of microinsurance, the individuals who market this type of product do not need to fulfill examination requirements during their training process, nor do they need to be registered. This helps expand the range of people who can sell these products, introducing a treatment proportionate to the simple design that characterizes these types of products. In general, distribution channels for mass-market insurance and microinsurance include sales personnel from commercial establishments, kiosk personnel, prepaid phone sales agents, meter readers from public utility companies, and field agents for micro-finance institutions or NGOs that experience high rates of staff turnover, and whose employees have lower levels of education than conventional insurance agents[26]. Contracting these policies should be simple, as should their payments. Hence the search for alternative channels, although the issue of distributors is a matter that is still being defined.

Finally, it should be noted that in Mexico, "Basic Standardized Insurance" exists, with Health, Life, Auto, Third-Party Liability or Accident policies, which must be offered by all the institutions that market this specific line of insurance products. The sums insured by these products are limited, and the contracting requirements are simple. However, this insurance, which is comparable to microinsurance due to its low cost and insured sums, has a limited presence partly because of the lack of promotion in high-penetration sales channels such as telephone operators and correspondents, as is done with microinsurance[27].

3.4 Central America

In Central America, the Central American and Caribbean Micro-Finance Network (Redcamif) is implementing a business model to develop microinsurance in the region[28]. Apart from that, this business is still in its early stages, but insurance companies from the region's countries are on track to offering sustainable, competitive products to stimulate a market with vast regional potential.

Guatemala

In Guatemala, the National Federation of Savings and Credit Cooperatives is the network that provides a greater and deeper reach into rural areas. The majority of products on the market are life or personal accident policies, some with a cash component for hospitalization. It should be noted that there is no specific regulation for microinsurance in the country, but there is one for mass-market insurance—this is thought to be able to encourage insurers to offer products to the low-income population.

Honduras

In the case of Honduras, the microinsurance offering is limited, despite the importance of cooperatives and the existence of micro-finance institutions operating in the country. Cooperatives would be ideal providers, as they already have a strong tradition in the country and have a solid network of over half a million members. However, the insurance products offered, for the time being, have not attracted sufficient interest. There are numerous micro-finance institutions, although they have not managed to acquire significant weight. Apart from a small number of credit life products, microinsurance is not common in micro-finance institutions.

El Salvador

Microinsurance in El Salvador has focused on credit life insurance through micro-finance institutions. The market for credit life insurance is very competitive within the country. The volume of clients, growth, and low-income populations' access to micro-finance institutions are attractive for insurers. As a result, insurance companies that normally do not serve low-income populations are adapting group life policies that already exist for micro-finance institutions to this market, generally working through brokers. General life insurance, as well as insurance for major medical costs, is an emerging niche that is becoming a competitive differentiator for many micro-finance institutions. However, there is no specific regulatory framework for microinsurance, so some current products are being sold through mass marketing, which requires non-traditional channels to go through a certification process—product by product—together with the insurer. It should be noted that in El Salvador, there is a facility to market microinsurance through collective personal accident, medical expense, and life policies, via mass marketers registered with the Financial System Regulatory Agency (pharmacies, lending companies for micro and small business owners, and commercial warehouses). Moreover, the Regulatory Agency, in line with its goal of promoting the development of microinsurance, has already authorized a company to digitally mass market itself through a partnership with a telephone company; the product will offer death coverage for people up to 70 years of age and premiums tailored to low-income consumers[29].

Nicaragua

In Nicaragua, there is a specific regulation for microinsurance and a Micro-Finance Law whose market may help develop microinsurance. The General Law on Insurance, Reinsurance, and Bonding contains a chapter called "Microinsurance,"[30] which determines the guidelines and rules related to the authorization of policy models, validity, contract conditions, technical bases, rates, and reports. Additionally, supervisors are authorized to modify or remove products from the market, amend clauses that are harmful to the consumer, or establish clauses for mandatory use. The insured sum per individual is limited by a resolution[31]. In April 2014, two products were approved, which began the sale of microinsurance in Nicaragua: "Siempre Seguro," a life product, and "Ingreso Seguro," a product for temporary total disability due to an accident. Every product has three plans, each with different insured sums. At the request of the regulatory authority, the "Ingreso Seguro" product was modified in favor of the client, with the waiting period and deductible being eliminated.

3.5 Colombia

Microinsurance has a long history in Colombia, beginning back in the 1970s. The variety of existing distribution channels has contributed to its development: micro-finance institutions (MFIs), NGOs, bancassurance, commercial insurers, the use of the financial network to market insurance products, insurance correspondents, and department stores. Although there is no specific regulation on microinsurance in Colombia, the government's actions have focused on breaking down barriers for the development of the market, adopting measures to promote the development of inclusive insurance through marketing schemes that allow for widespread growth in a protective environment, such as: the modification of the Asset Laundering and Terrorism Financing Administration System (SARLAFT) with regard to small loans and some products from the insurance industry[32]; the option for insurers to use the branch networks of financial institutions[33]; and the development of insurance marketing operations[34].

In 2014, the Access to Insurance Initiative (A2ii) analyzed the level of the microinsurance market's development in Colombia as the first step of the project named "Implementation of regulation and supervision standards for microinsurance markets in Latin America." To do so, the consulting team relied on the support of the Colombia Financial Regulatory Agency and the Banca de las Oportunidades. As it was one of the most exhaustive studies on the microinsurance market in Colombia at the time, part of its content is described below.

The document specifies that the microinsurance market reports from the Colombian trade association of insurers (Fasecolda)—the main supply of information on this product and on which the analysis is based—include a variety of products that are not necessarily classified as microinsurance, but rather as "low-cost mass-market insurance." Although the microinsurance market in Colombia seems to be significantly developed, the products offered are not very diversified, as the majority of the risks covered fall within the personal insurance category. Personal Accident and Group Life products, including debtor life insurance, make up 83% of the total number of insurance products. Some of the issues identified by insurance companies are the high commission fees charged, which are between 25% (the lowest) and 70% in extreme cases—extremely high compared to other countries.

The report adds that "the Colombian government has committed to the fight against poverty and the promotion of financial inclusion, including access to insurance. This is reflected not only in the acknowledgment of insurance in its public policies, but also in the promotion of public-private partnerships (PPP) to offer microinsurance products to strata 1, 2, and 3 (microinsurance target population). In particular, the objective of PPPs within the field of microinsurance is to develop pilot projects together with insurance companies interested in the sector, in such a way that the experiences generated are used to improve insurance companies' knowledge of the socioeconomic reality of the target population. Another objective is to develop the know-how of these companies regarding the design of specific products to satisfy the needs of the target population."

Since 2002, the insurance industry in Colombia has been exploring options to offer insurance en masse through various channels, including: (i) public utility companies, such as gas and electricity; (ii) the community aid sector; (iii) bancassurance; (iv) micro-finance institutions, and (v) shops and department stores, among others. Alternative methods of payment and premium collection, such as through electronic accounts or cellphones, have still not gained the prominence seen in other countries, in relation to microinsurance services.

As for the matter of financial inclusion, in 2006 Colombia adopted the Banca de las Oportunidades policy, from which it created the "Banca de las Oportunidades" Investment Program[35], with the objective of creating the necessary conditions to promote access to credit and more financial services for low-income populations, SMEs and entrepreneurs. This policy has been strengthening through national development plans. In this regard, the 2010–2014 National Development Plan[36] adopted a specific inclusion goal for the very first time and added measures to guarantee supply in remote areas, design products suitable for different population segments, and promote economic and financial education. Lastly, the 2014-2018 National Development Plan[37] continued this strategy with a series of goals that complement the scheme for monitoring and tracking financial inclusion developments.

A document presented by the Interagency Commission for Financial Inclusion[38] highlights policy developments and seeks to identify the barriers that still exist, as well as the new challenges that need to be addressed. In the insurance section, it mentions some of the policies that have been developed to promote financial inclusion, some of which have been mentioned earlier. In general, the government has promoted access to agricultural and livestock insurance through measures such as: the reduction of the value added tax (VAT) rate for this product from 16% to 5%; the increase of the premium subsidy from 60% to 70% for medium-sized and large producers that have loans with Finagro (financial fund for the agricultural sector), and to 80% for small producers that meet the same conditions; and the inclusion of rural activities other than farming that can benefit from the premium subsidy.

Likewise, measures have been implemented to make progress toward inclusive insurance. In 2015, a proportionate regulation was adopted on the monitoring of asset laundering and terrorism financing with the issuance of External Circular Letter 034 of the Financial Regulatory Agency, which simplified the SARLAFT system for low-cost insurance. Additionally, Decree 034 authorized insurance companies to offer insurance through banking correspondents and through network usage. With this provision, insurance can be sold provided that it is simple, universal, standardized, mass-marketed, and belongs to the lines authorized exclusively for these channels, as is the case with Mandatory Traffic Accident Insurance (SOAT), funeral insurance, personal accident insurance, and unemployment insurance, among others. Through External Circular Letter 049 of the Financial Superintendency, Decree 034 was established with regard to the marketing of insurance through network usage.

In terms of innovation, "La Arenera" (regulatory sandbox) forms part of a set of tools that the Financial and Technological Innovation Group (Innovasfc) has designed to facilitate sustainable and responsible innovation in the financial system. This group forms part of the Research and Development Directorate of the Colombia Financial Superintendency. In this space, innovative companies can test out new business models, applications, processes, or products that have innovative technological elements, impact financial services, benefit financial consumers, facilitate financial inclusion, develop financial markets, or improve competition between the companies monitored[39].

3.6 Brazil

Analyzing data from the Private Insurance Regulatory Agency (SUSEP), it was observed that the volume of microinsurance premiums in Brazil rose to 391 million reais (107 million US dollars) in 2018, predominantly made up of personal insurance (57%), which has been decreasing over the years. Casualty insurance, for its part, has grown extraordinarily and continuously since 2013, easing over the last year (18%), in which microinsurance grew by 10%.

Since 2003, SUSEP has tried to implement actions to promote the sale of simplified, low-cost insurance. In this regard, in 2004 a Circular Letter was published that established the general standardized conditions for the modality of life insurance in a public insurance group, and the following year SUSEP Circular Letter no. 306/2005 was issued, which regulated the operating rules and criteria for public automobile insurance, establishing standardized contractual conditions. These products proved to be unsuitable and the market did not present any product in the form provided for in the regulation, but it did help to encourage discussions on microinsurance, an unknown topic prior to 2004, raising awareness among the insurance industry.

In 2006, SUSEP began to participate in international forums on the topic, on the occasion of the establishment of the IAIS-MIN Joint Working Group on Microinsurance (JWG-MI), formed by members of and observers for the International Association of Insurance Supervisors (IAIS) and by representatives of the Microinsurance Network. This participation has brought new focus to the work done by SUSEP and the National Council of Private Insurance (CNSP), through the guidelines issued by this group on the establishment of suitable regulatory structures that will enable the development of microinsurance, in line with the IAIS's Insurance Core Principles and, more recently, with the G20's actions implementing the Principles for Innovative Financial Inclusion.

In 2008, through CNSP Law 10/2008, the CNSP created the Microinsurance Advisory Committee, chaired by the SUSEP Regulatory Agency and composed of representatives from the public sector (Ministry of Finance, SUSEP, Central Bank of Brazil, and Ministry of Social Security) and the private sector (Natural Federation of Private Insurance and Capitalization Companies [FENASEG], National Federation of Brokers for Private Insurance and Reinsurance, Capitalization, Private Pension Plans, and Insurance and Reinsurance [FENACOR], and the National School of Insurance [FUNENSEG]). The objective of the Committee was to promote studies on microinsurance and advise the CNSP on its technical and operational aspects. In order to support the Advisory Committee and also act as its secretary, in 2008 the SUSEP Work Group on Microinsurance was created, composed of technicians from the Agency. The work carried out under the Committee was presented and discussed in workshops. The first took place in Rio de Janeiro in September 2009, and the second took place in Brasilia in December 2009, bringing an end to the Committee's activities.

In conjunction with these activities, in April 2008 political action was introduced in the Brazilian Congress to promote insurance for low-income individuals, submitted as Draft Bill 3.266/2008 In 2019, the Chamber of Deputies received an official letter from the Federal Senate, communicating the project file at the end of the 55th legislature. As the project had still not been approved in September 2011, SUSEP concluded that, with the exception of the tax aspects, it would be possible to regulate microinsurance within the CNSP's sphere of competence. At the same time, a work group was formed, composed of representatives from SUSEP and the insurance market, with the goal of developing a proposal to establish special rules for the development of microinsurance in Brazil. The proposal submitted by the work group served as the basis for the preparation of CNSP Resolution No. 244/2011 on microinsurance, broker, and microinsurance correspondent operations. This regulation provides general guidelines with a focus on product regulation, prudential regulation, and market conduct regulation, delegating the power to deliberate on technical and operational matters to SUSEP.

CNSP Resolution No. 244/2011 defines microinsurance as: insurance protection for low-income populations or for individual micro-entrepreneurs in the form established by Supplementary Law No. 123/2006, as amended by Supplementary Law No. 128/2008, provided by insurance companies and open private pension companies authorized to operate in the country, subject to payments proportionate to the risks involved.

In December 2011, a new work group was formed, composed of SUSEP and market representatives, with the objective of developing supplementary rules to CNSP Resolution No. 244/2011. In the following months, the following regulations were published on microinsurance:

- SUSEP Circular Letter 439 of June 27, 2012. Establishes the conditions for the authorization and operation of companies and entities that can work with microinsurance, and provides other measures.
- SUSEP Circular Letter 440 of June 27, 2012. Establishes mandatory parameters for microinsurance plans and the means of contracting these plans, including the use of remote means, and provides other measures.
- SUSEP Circular Letter 441 of June 27, 2012. Regulates the offering of microinsurance plans through financial institution correspondents and other institutions authorized to operate by the Central Bank of Brazil.
- SUSEP Circular Letter 442 of June 27, 2012. Regulates the activity of microinsurance correspondents.
- SUSEP Circular Letter 443 of June 27, 2012. Regulates the registration and activity of microinsurance brokers.
- SUSEP Circular Letter 444 of June 27, 2012. Establishes the transfer of capitalization certificate rights to promote the acquisition of microinsurance.
- CNSP Resolution no. 262 of September 25, 2012. Establishes the rules and procedures for the establishment of technical reserves and for determining the need, through guarantor assets, for Unearned Premium Reserve coverage for insurance companies and open supplementary pension fund companies authorized to operate exclusively in microinsurance.
- CNSP Resolution no. 263 of September 25, 2012. Establishes the minimum capital required for the authorization and operation of insurance companies and open supplementary pension fund companies authorized to operate exclusively in microinsurance.
- CNSP Resolution no. 268 of December 19, 2012. Endorses CNSP Resolution No. 262 of 2012.
- SUSEP Circular Letter no. 490 of June 27, 2014. Amends SUSEP Circular Letter no. 440 of June 27, 2012.

As for the topic of financial inclusion, in 2012 the "Action Plan for Strengthening the Institutional Environment" was launched in Brazil by the National Association for Financial Inclusion (PNIF), in which SUSEP and the National Superintendence of Complementary Welfare (Previc) participate, as well as a number of other institutions.

Finally, a recent initiative approved by the CNSP to improve financial inclusion in the country establishes the conditions for SUSEP to begin the process of selecting Regulatory Sandbox projects that will help transform the insurance industry in the coming years[40]. Among the initiative selection criteria are the proposal of new products, new technologies, and cost savings for the consumer. The objective is to expand insurance coverage in the country, stimulating competition and innovation, through a different experience for policyholders. Focus is placed on short-term group products, which therefore excludes pension, reinsurance, major risk, and third-party liability segments, for example.

3.7 Peru

As on December 31, 2018, the Peruvian insurance market had 49 microinsurance products with 5.2 million policyholders and a premium volume of 121 million soles (33 million US dollars), representing 0.9% of the industry total. At 44.3%, life insurance makes up the greatest percentage of premiums, followed by personal accidents at 26.2%. Furthermore, the Theft line has the greatest number of policyholders (2.6 million).

It should be noted that Peru was one of the first countries in Latin America to have a specific microinsurance regulation. The Banks, Insurers and Private Pension Funds Regulatory Agency (SBSyAFP) regulated this product for the very first time in 2007, with the enactment of the Microinsurance Regulation[41]. The Regulation defined microinsurance as low-cost mass-market insurance (monthly premiums up to 3 US dollars) with limited coverage (no greater than 3,300 US dollars) for personal or asset risks through individual and/or group/collective policies.

In 2009, with the goal of continuing to improve the regulatory framework applicable to this type of insurance, this Regulation was amended[42], setting a new definition of microinsurance that eliminates the monthly premium and insured sum limits indicated in the former regulation. In this regard, "microinsurance is a type of insurance that provides protection to low-income populations faced with loss due to the human or asset risks that affect them." The new regulation placed emphasis on the need for the insurance industry to develop products that meet the protection needs of low-income populations by carrying out studies or analyses that will allow suitable products to be designed and identifying the channel that will best reach the target audience. In this way, it tried to prevent insurance companies from marketing already existing, modified, or simplified products in order to be able to benefit from the marketing facilities afforded by the Regulation.

Furthermore, Peru has had a National Financial Inclusion Strategy (ENIF) since 2015[43], which incorporates into its design an Action Plan defined by seven lines of work: savings, payments, financing, insurance, consumer protection, financial education, and vulnerable groups. Its objective is "to promote access to and responsible use of comprehensive financial services that are reliable, efficient, innovative, and suitable for the needs of the various population segments." This strategy encompasses the update to the Microinsurance Policy Regulation, for which the SBSyAFP was supported by international agencies. In this regard, as part of the "Implementation of Regulation and Supervision Standards for Microinsurance Markets in Latin America and the Caribbean" project, a joint proposal from the Access to Insurance Initiative (A2ii) and the Inter-American Development Bank (IADB), a diagnostic study was carried out and recommendations were made for the regulation and supervision of microinsurance in Peru, which determined that the current regulation needed to be updated. As a result, in 2016 the Microinsurance Policy Regulation was approved[44], which includes a new definition of the term "microinsurance": "insurance that can be accessed by low-income individuals and micro-entrepreneurs to cover personal and/or asset risks, through premium payments proportionate to the risks covered by the policy, under individual insurance or group/collective insurance modalities, and that meets the following requirements:

a) It is designed to meet the protection needs of low-income individuals and/or micro-entrepreneurs;

b) It is sold by marketers whose target audience includes low-income individuals and/or micro-entrepreneurs;

c) The monthly premium does not exceed two percent (2%) of the minimum living wage."

In this way, this regulation updates the provisions referred to microinsurance marketing, incorporating the use of correspondent ATMs from financial institutions and e-money institutions, and to the distance selling systems. It also allows the use of electronic insurance certificates and policies, as well as the use of payment receipts that contain relevant information on the insurance conditions, as proof of the contract.

Another regulation that has been significant in the development of microinsurance in Peru is the Insurance Marketing Regulation[45], which supplements the Transparency and Microinsurance Regulations and establishes the requirements with which insurers must comply when training supervisors on their marketing channels and on the product information that these channels must have available.

3.8 Argentina

In Argentina, microinsurance is regulated by the State as part of the implementation of social and financial inclusion policies. In 2018, the National Insurance Regulatory Agency (SSN) incorporated point 23.8 into the General Regulation on Insurance Activity. This point establishes the sale and implementation of microinsurance[46]. The Agency also handed down the special training rules for insurance producers and advisory services, groups of producers, and appointed agents that want to broker microinsurance

Other regulatory developments that have taken place in the country over the last few years in terms of financial inclusion, and more specifically insurance, are the following:

- SSN Resolution 40.541-E/2017. Bankization of insurance collections. It was stipulated that any insurance contract must be paid through means that guarantee that the money is traceable, in order to strengthen the transparency of the market and financial inclusion.

- Resolution 219/2018: Digital Policy. The SSN expanded methods of sending documentation that must be provided to policyholders and/or insurers. It regulates the use of facsimile signatures for underwriting policies.

More recently, the Argentinian government developed the National Financial Inclusion Strategy (ENIF) with the support of various actors from the public sector, private sector, international community, and academic society, with the goal of driving the development of policies for universal access to banking and financial services. The Financial Inclusion Coordination Council was in charge of its development, review, and approval, and it was published in the Official Gazette of August 29, 2019[47].

Through the ENIF, it seeks to promote access to and the responsible, sustainable use of financial services in Argentina. The financial service offering must meet a series of requirements: it must be comprehensive, meaning it must be focused on credit, savings, insurance, and digital payments; the products offered must be practical and suitable for use; the service offering must be sustainable, meaning it must not depend on public assistance; and finally, the offering must also be responsible, meaning the terms and conditions of the financial products must be communicated to users in a clear and transparent way.

The core objectives of this strategy are: (i) to complement and improve access to savings accounts, credit, electronic payment methods, and insurance; (ii) to promote the use of accounts, electronic payment methods, and other financial services, as a gateway to the financial system; and (iii) to improve the population's financial capabilities and user protection. Additionally, with regard to the limited use of insurance in the low-income population segment, the following general measures were identified: (i) reduction of bureaucratic obstacles to the provision of insurance and microinsurance; (ii) approval of contractual conditions for asset and personal insurance geared toward vulnerable population segments; and (iii) training provided to associations, insurers, brokers, producers, and cooperatives.

3.9 Other Latin American markets

Chile

In Chile, there is no specific microinsurance legislation, although regulations allow the free entry of various agents into the market and the development of insurance products. The insurance regulator (Commission for the Financial Market) has focused its work on financial inclusion, understanding that the financial/insurance consumer needs to have a system capable of providing balance between the protection of their rights and financial inclusion and education (strictly following the guidelines of the Organization for Economic Cooperation and Development, OCDE).

Despite there not being a specific regulation, microinsurance is in the early stages of development in Chile, and is mainly provided through BancoEstado, retail, micro-finance companies, and cooperatives[48]. In part, BancoEstado plays a social role in financial inclusion, as it has an insurance brokerage that offers a wide range of insurance products, reaching population segments that have difficulty accessing these products due to their socioeconomic situation. Furthermore, a micro-finance foundation and a general insurance company have partnered to tackle microinsurance programs. As of December 2014, micro-entrepreneurs from the companies Fondo Esperanza and Emprende Microfinanzas can opt for personal accident insurance when taking out or renewing commercial loans. This policy provides personal accident coverage with accidental death, total disability, and funeral benefits.

Moreover, there is a state-level support program for agricultural insurance, the goal of which is to facilitate farmers' access to insurance so they can cope with weather-related risks to which they are exposed. These policies provide them with protection against inevitable and unexpected climatic damage, allowing them to recoup part of their production costs. This tool allows producers to take out a policy subsidized by the state (Agricultural Insurance Committee [COMSA] and the Institute of Agricultural Development [INDAP]).

In 2018, the insurance supervisor was working on the development and refinement of the Risk-Based Capital methodology for the insurance industry, through the Risk-Based Supervision draft bill. One of the new features introduced in the draft bill refers to the development of the market through the inclusion of parametric insurance and the facilitation of marketing inclusive insurance. In 2020, the government will try to resume consideration of the draft bill, which is currently in Congress in the second constitutional process stage.

Ecuador

There is no statistical information on microinsurance from the Companies, Securities, and Insurance Regulatory Agency, but according to data reported from microinsurance providers for "The Landscape of Microinsurance in Latin America and the Caribbean 2017" study, Ecuador is the South American country with the highest premium volume for these products, of 82 million dollars, which accounts for 5.3% of the total premiums. The most popular forms of coverage are Life, Accident, Health, and Burial, and especially credit life insurance, as it is mandatory when taking out home loans with financial institutions[49].

As is the case in other countries within the region, microinsurance has been promoted through the growth of micro-finances, with the main channels of distribution being micro-finance institutions and, more recently, non-banking correspondents[50]. This channel has also been used as a means to promote the sale of microinsurance[51].

Lastly, as regards financial and insurance inclusion, the Central Bank of Ecuador is involved in the development of a National Financial Inclusion Strategy with the advice of the World Bank. However, there is currently no specific microinsurance legislation in Ecuador.

Bolivia

In Bolivia, the most common microinsurance products are Life, Accident, and mortgage protection insurance There is no specific microinsurance regulation, and the products that companies offer are approved by the Pension and Insurance Auditing Authority (APS), through the authorization of its policies' texts. There is, however, a regulation on the marketing of insurance through alternative channels. In this regard, through Administrative Resolution No. 258 of June 2000, the Regulation on Special Insurance Mass Marketing was approved.

As in other examples, microinsurance in Bolivia has developed along with the micro-finance market. The Bolivian micro-finance model is one of the most successful in the region and a global benchmark. Its expansion through micro-finance institutions has allowed underprivileged classes and micro-entrepreneurs to have access to credit, as well as other financial products such as microinsurance, thus becoming the main channel that insurers use to market these products. In turn, the microinsurance offering allows micro-finance institutions to expand their service offering.

The Inclusive Insurance Project (from 2016 to 2019), promoted by the Swiss Cooperation Office in Bolivia and carried out by the PROFIN Foundation, promotes the development of inclusive insurance, articulating the supply and demand of the insurance market through the active participation of the APS and other insurance market actors (insurance companies, producer associations, labor unions, and financial brokerage institutions, among others). The project aims to introduce commercial agricultural insurance products and inclusive insurance products into the market that meet the needs of the target population; in other words, the limited-income population of the urban, peri-urban, and rural areas of Bolivia, which are susceptible to risks of illness, accidents, disability, and death, as well as farmers affected by climatic risks such as frost, hail, and strong winds.

4. Regulatory aspects

There are an increasing number of countries incorporating some type of specific regulation into their legislation in order to promote the development of microinsurance. In this regard, there is a consensus that the regulation should not base these incentives on the artificial reduction of regulatory capital requirements (which guarantee that insurance companies remain solvent), but rather on elements that, without affecting the core purpose of the regulatory framework, allow for the reduction of transaction costs, a key aspect for microinsurance to be, on the one hand, affordable for its target population and, on the other hand, to be profitable enough to market the product. As mentioned before, some countries have regulations on mass insurance sales. While this is a particularly relevant development in establishing distribution channels that may reduce transaction costs, it does not necessarily tackle all of the aspects related to the operation of microinsurance.

In analyzing the various specific microinsurance regulations of the countries examined in this report, the main measures adopted and their goals can be observed:

- Adaptation of minimum capital required for the authorization and operation of insurance companies authorized to work exclusively with microinsurance, so that it is commensurate with the risk of these types of companies.

- Simplification of training and registration requirements for individuals involved in the sale of insurance. This is a measure that also tends to be applied to insurance products designed for mass marketing. As in both cases they are simple products, designed to be easily understood, these requirements can be eased without prejudice to the consumer, in such a way that distribution channels can be opened that allow greater access to more people and more remote locations.

- Simplification of standards and procedures that require a costly compliance infrastructure and, in particular, anti-money laundering and terrorism financing regulations.

- Emphasis on the need for the insurance industry to develop products that meet the protection needs of low-income populations by carrying out studies or analyses that will allow suitable products to be designed and identifying the distribution channel(s) that will best reach the target audience at a reasonable cost.

- Exemption from or reduction of indirect tax rates, such as value added tax or an insurance premium tax. This is a particularly relevant aspect given that, when selling insurance in economies where there is a high rate of informal labor relations, any demonstration of purchasing power is immediately taxed for collection purposes. This puts a considerable brake on the development of microinsurance in countries where there are no significant exemptions from or reductions in the indirect taxes on insurance premiums.

- Granting legal validity to the use of technologies that allow for the digital identification of the insurance policyholder and the elimination of paper requirements as support for contractual documentation, thus permitting the use of electronic insurance certificates and policies.

- Elimination of regulatory obstacles to the launch of new products on the market, simplifying the notification process and, where applicable, the supervisor's approval process.

- Promotion of consumer education and awareness in order to instill an insurance culture in low-income households.

- Limiting moral hazard and fraud by establishing incentive systems and controls. Some regulations establish specific microinsurance consumer protection provisions, excluding the possibility of imposing deductibles and/or copays in order to be able to access the benefits to which policyholders are entitled.

It should be noted that the International Association of Insurance Supervisors (IAIS) has analyzed the current state of the regulatory and supervision frameworks in various countries under the "Access to Insurance Initiative (A2ii)"[52]. This initiative was promoted by this association together with other agencies such as the International Labor Organization, the German governmental agency BMZ, and CGAP ("Consultative Group to Assist the Poor"), in order to strengthen supervisors' capacities and knowledge for the promotion of inclusive insurance and to facilitate low-income or vulnerable populations' access to this insurance at a reasonable cost.

5. Conclusions

Taking into account the individual idiosyncrasies of each market, there are three factors involved in advancing with a financial inclusion strategy that is based on the expanded use of microinsurance: (i) identifying the risks that may affect the vulnerable groups the most; (ii) designing products in accordance with said risks and the groups for which they are intended, and (iii) having a regulatory framework that allows these products to be effectively brought to these groups under parameters of economic and social efficiency.

For this strategy to be effective, it is necessary to have microinsurance providers and distributors with an appropriate infrastructure and to adopt measures to boost demand, mainly through financial education. It is also crucial to have regulatory and tax frameworks in place to facilitate the development of microinsurance and so be able to achieve these objectives.

The development of microinsurance offers varying degrees of complexity. Therefore, policies for financial inclusion in insurance should begin by promoting the introduction of microinsurance that offers lower degrees of complexity, and progress in different stages toward those insurance products with greater complexity. Microinsurance products must have a simple design, both from a legal and a technical point of view. From a legal point of view, the policy and its terms and conditions must be simple and its content easy to understand. And from a technical perspective, it must include simple coverage and clearly defined insured sums and benefits.

A key aspect of the microinsurance underwriting process concerns the technical safety margins that must be included in the risk premium. In the short-term, and due to the lack of sufficient information on the frequency and severity of the risks to cover, these margins can weigh negatively on the price of these products. Therefore, it is necessary for these margins to be adjusted as sufficient information is collected on the particularities of the risks covered and in order to segment clients, so that the price is affordable for the groups of society toward which this insurance is geared. In this sense, access to the information currently provided by new technologies can play a very important role.

Moreover, cutting transaction costs is an additional way to make microinsurance products accessible to vulnerable groups of the population. This requires supplementing traditional distribution means with non-traditional channels, such as banking and micro-finance networks, sales networks, public utility bills, and new distribution networks based on non-traditional intermediaries. As explained throughout this report, technology can play a fundamental role in this respect. For this, the use of suitable technological platforms is essential to reduce costs not only for contracting the product and the payment of the associated premium, but also for its management and renewal, and for the payment of the corresponding indemnification.

And finally, as it is geared toward the vulnerable population segment in order to deal with the short-term effects of shocks caused by the materialization of risks, microinsurance should be designed in such a way that indemnification is paid almost immediately, with specific and minimal documentary requirements.

As discussed throughout this report, inclusive insurance products (which include microinsurance) must meet a series of conditions: (i) they must be affordable (offered at a price that allows them to be purchased); (ii) they must be sustainable (can be offered regularly); (iii) they must be suitable (meeting the needs of the target population), and (iv) they must be responsible (offered at an appropriate price/value ratio, considering the conditions of the population toward which they are geared).

Therefore, barriers must be broken down, both on the supply side and the demand side. On the one hand, structural factors on the demand side imply the need to spread awareness regarding the implementation of public policies aimed at promoting increased income for these vulnerable groups. In this respect, there is room for improvement in public-private collaboration mechanisms between governments and the insurance industry, in order to work on the factors—in the medium- and long-term—that determine levels of available income and the degree of awareness regarding the risks that the population faces. And on the other hand, in terms of making progress to break down supply-related barriers, efforts must be made in two main areas. Firstly, the insurance industry must adjust or create new business models specifically geared toward inclusive insurance, creating more innovative products and relying on new distribution mechanisms that will effectively lower transaction costs. Secondly, there must be a push for regulatory adjustments that provide incentives for innovation and for the use of distribution mechanisms that reduce transaction costs for these types of products.

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