



social protection
risk management
microinsurance

Business Planning for Microinsurance

A brief guide – John Wipf and Denis Garand for
Capacity Building Working Group of the Microinsurance Network (MIN)
with support of GIZ Sector Initiative Systems of Social Protection

Published by

Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH
Dag Hammarskjöld-Weg 1-5
65760 Eschborn, Germany
T + 49-6196-79-0
F + 49-6196-79-1115
E info@giz.de
I www.giz.de

Sector Initiative Systems of Social Protection

Head: Dr. Christian Pfeiderer
P + 49 (0) 6196-79-1449
F + 49 (0) 6196-79-80-1449
E social-protection@giz.de
I www.giz.de/social-protection-systems

Microinsurance Network (MIN)

2, rue Sainte Zithe
L-2763 Luxembourg
G.- D. de Luxembourg
T +352/456868 25
F +352/456868 68
I www.microinsurancenetwork.org

Capacity Building Working Group

Facilitator: Gaby Ramm
gaby.ramm@micro-insurance.de

Federal Ministry for Economic Cooperation and Development (BMZ)

Head of Division 310: Millennium Development
Goals; poverty reduction; social protection; sectoral
and thematic policies

Authors

John Wipf and Denis Garand

Design

Nikolai Krasomil, www.design-werk.com

Eschborn, 2011

Preface	3
1. Introduction	4
1.1 What is a Business Plan?	4
1.2 Microinsurance Business Plan	4
2. Product Idea, Business Goals	8
2.1 Vision, Mission, Goals (VMG)	8
2.2 Rationale and General Business Strategy	9
2.3 Performance Indicators	12
3. Market Place and Competition	14
3.1 Overview of the Macro Environment	14
3.2 Regulatory Environment	15
3.3 Market	15
3.3.1 Supply Side	16
3.3.2 Demand Side	19
4. Product Development and Pricing	22
5. Marketing and Distribution	25
5.1 Target Market	25
5.2 Social Marketing Strategy	25
5.3 Commission Structure	27
5.4 Describing Marketing Performance	27
6. Form of Company, Organizational Aspects	28
6.1 Organizational Aspects	28
6.1.1 Bearing the Insurance Risk	28
6.1.2 Organizational Development	30
6.2 Operations Management	31
6.2.1 Frontline Operations	31
6.2.2 Backroom Operations	34
7. Financial Planning	33
8. Risk Assessment	35
9. Conclusion	36
Appendix A – Glossary	37
Acronyms	39

Preface

3

Poor households are particularly vulnerable to catastrophic financial ruin because of their limited resources and options to mitigate, cope with, and manage the financial impact of risks that they face on a daily basis. In recent years, microinsurance has been increasingly recognized as an effective mechanism that can assist the poor with managing some of the insurable risks. This has amplified interest in the subject from a wide range of stakeholders such as donors, governments, development and service organizations, insurers, and the primary beneficiaries themselves.

In response to growing demand, the development of microinsurance products and programs has grown rapidly in recent years. Many of these are set up without the benefits of a thorough business planning exercise. Hence, the guide targets readers that aim to start up microinsurance business, especially those who have not yet developed a systematic plan on existing microinsurance operations.

The guide contains all relevant information needed when carrying out a business plan. Secondly, it walks readers through the most important components of a microinsurance business plan. In doing so, it also delves into a number of topics that should be reflected on during the planning process and explores some of the central decisions that must be made when setting up a microinsurance program.

Acknowledgements

This booklet was organized by the Microinsurance Network (MIN) Capacity Building working group headed by Gaby Ramm. It was funded jointly by GIZ, Sector Initiative Systems of Social Protection and MIN secretariat.

The authors are grateful to Michiel Berende, Yvonne Deblon, Michael J. McCord, Caroline Phily, Gabriele Ramm, Lisa Rohrdantz, Dr Barbara Rohregger, Catherine Tremblay, and Mary Yang for reviewing the booklet. Their extensive inputs significantly improved the quality and accuracy of the content, broadened the variety of microinsurance examples, and helped to balance some of the authors' views and conclusions.

1. Introduction

1.1 What is a Business Plan?

The term “business plan” usually refers to a written declaration of business objectives with a plan on how these will be attained.

First, it is necessary to clarify what we mean by a business plan. In the numerous publications on this subject, a business plan is typically understood as a written declaration of business objectives with a plan on how these will be attained. Business plans are prepared when starting, expanding, or purchasing a business venture or an organization, or when working to improve the management of an existing organization. Normally, they are tailored for a specific audience and prepared for a specific purpose such as securing funding from an investor or donor, monitoring quality or to guide the stakeholders of an organization with respect to its plans.¹

Many business plans are actually several plans integrated into one. These may include a strategic plan, a marketing plan, a management plan, an organizational development plan, and a financial plan.² Some organizations prepare only a long term strategic plan (e.g. with duration 5, 7 or more years, but updated every 2 to 3 years) from which they prepare their annual operational and financial plans. Strategic plans contain only high-level targets and specify only in general terms how those will be achieved.

The term feasibility study is used synonymously with business plan by some, especially if it concerns new microinsurance products and programs. However, sometimes a feasibility study is nothing more than a spreadsheet exercise, but in other cases it is a comprehensive financial and actuarial model backed up by market research, operations planning, and so on- in short, it is a full-blown business plan.

There is a multitude of publications and tools available online and in bookstores, some free and some not, to assist with the development of various types of business plans. These can be very useful but none of them can substitute for the thinking and work that must go into the preparation of a plan. The format and contents of various plans differ and depend on such factors as the complexity of an organization, the type of products or services, the demand of the targeted audience, and also on authors' preferences and styles.

1.2 Microinsurance Business Plan

All microinsurance ventures should be preceded by a comprehensive business plan.

Microinsurance programs are very diverse in terms of type and complexity of the product/service, management, and structure. Whether the emphasis is on developing a for-profit business or on a not-for-profit social enterprise, all ventures should be preceded by a comprehensive study and business plan. For existing programs, business plans are equally important and should be kept up to date since they serve as a blueprint (guide) for monitoring and development.

Typically, business plans for microinsurance are prepared a) when an existing insurer or program plans to develop a new or revised product; b) when a new microinsurance organization or program is being proposed; or c) when an existing organization or program wants to formalize its future strategies. Here, we cover only the development of the most important plan components. There is no definitive structure or format, although the sequence of the various sections may appear logically similar to that of a plan outline.

¹ Gleeson, Alan: *Top 10 Business Plan Mistakes to Avoid*, 2007: <http://articles.bplans.co.uk/index.php/business-articles/writing-a-business-plan>

² McNamara, Carter 2008: *Business Planning (for nonprofits or for-profits)*: http://www.managementhelp.org/plan_dec/bus_plan/bus_plan.htm

A business plan usually starts out with a series of general questions that quickly expand into major study areas as the plan is thought out and developed. The core questions guiding the thought process are summarized in Table 1. These aim to describe the situation, uncover the needs of the target market, propose solutions, mobilize resources, and depict how the expected results will be achieved.

The aim is to present the most important aspects of each section and let the reader decide which of these are important for the business plan being developed. Hence, not all of the information presented here will be relevant in all contexts. For example, if an insurer is developing a second product for a specific channel there may not be a need to spend time on researching the macro environment: The business plan may be a supplement to the insurer's more general microinsurance business plan. On the other hand, additional elements may be added if necessary.

Table 1: General content of most microinsurance business plans

Component	Description	Content
1. Summary	Summary	Brief summary of main aspects
2. Product Idea, Business Goals	1) How is the organization defined and structured? 2) What is the rationale for setting up the program / developing the product?	Description of the organization: • Vision, Mission, and Goals (VMG) of the organization behind the program (especially for strategic plans) • Type and structure of program – self-insured, partner-agent, etc. Definition of product rationale: • Rationale and basis for the program in terms of strategic fit to the potential market, market needs, problem to be solved • How the rationale of undertaking the venture links to the Vision, Mission, and Goals (VMG) of the organization • List of overall objectives to be accomplished (strategic, economic, etc.)
3. Marketplace and Competition	1) How does the macro environment affect the venture? 2) Does the regulatory environment support the venture? 3) What are the main characteristics of the market?	Description of the macro environment: • Description of the environment that affects the program: physical, socio-economic, population demographics and health, socio-political, etc. Description of the regulatory environment: • Is it legal to undertake the venture / develop the product? • How supportive are current regulators towards the proposal? • What are the legal options, and the advantages/disadvantages of each? • Why and how will the product/ program be registered?

Component	Description	Content
		<p>Description, quantification, and analysis of market demand and supply:</p> <ul style="list-style-type: none"> • Describe the insurance industries (some countries have several types) • Public and private healthcare and other service providers • Government-financed social protection and insurance programs • Total and target market demand (what the market needs) • Identification and analysis of alternatives and competing programs, either public or private, and/or how these will be integrated or complemented • Needs, service gaps in the market • Identification of gaps that can be addressed
4. Product Development and Pricing	What exactly will be offered to the customer, and at what cost?	<p>Description of the product that will be offered:</p> <ul style="list-style-type: none"> • Products and services to be offered • Premium or contribution costs, and justification that the consumer can afford the services on an ongoing basis
5. Marketing and Distribution	How will it all be accomplished?	<ul style="list-style-type: none"> • How the services are (or will be) delivered • How the product(s) is/are to be developed • Marketing and distribution • Operations management • Role of technology to improve service and lower costs
6. Form of Company, Management Team	Who will accomplish the venture?	<ul style="list-style-type: none"> • A description of management and staff • Description of partnering organizations (as relevant) • Organization structure and development plan • Capacity-building requirements and sources
7. Financial Planning	What resources are needed to execute the plan?	<ul style="list-style-type: none"> • Start-up capital and surplus requirements by regulators • Other resources needed to make the plan work
8. Risk Assessment	What is the expected performance?	<p>Detailed description and analysis of the expected performance of the scheme. This is usually based on a number of financial indicators that are complemented by a narrative description.</p>

These questions are addressed to a varying extent in the different sections below.

For programs with multiple partners, there may be more than one business plan. For example, for cases where an MFI partners with one or more insurance companies, or with service providers to deliver a comprehensive product, each of the partners involved may prepare their own business plan. In some instances partners may cooperate and prepare a joint business plan. For the sake of brevity, we do not segregate the discussion but instead approach it from the overall perspective as if there were a jointly prepared plan.

Typically, the term of a business plan is between 3-7 years. However, for programs affiliated with another organization such as an MFI the term is often set to coincide with that organization's business plan. Plans as long as ten years are sometimes prepared and although it is difficult to project accuracy beyond three years, longer term financial projections can still have some informative value.

Finally, terminology in business plans varies, depending on the ownership of the microinsurance program. Some of these differences are summarized in table 2. In the discussions below the most general terms are used whenever possible. Various organizations involved in the program (insurers, reinsurers, intermediaries, agents, service providers etc.) may even use varying terminology for the same microinsurance program in their respective version of the business plan since their perspective varies.

Table 2: Usual terminology of member-owned vs. investor-owned programs

Aspect	Investor-owned	Member-owned
Owners	Shareholders	Members
Operating gains or losses in a period	Profit and loss	Contribution to surplus
Insurance payments	Premiums	Contributions
Insurance	Product	Service or product
Insured	Clients, customers	Members, customers
Investments in the programme	Shareholder capital, equity	Member capital, equity, surplus

2. Product Idea, Business Goals

8

2.1 Vision, Mission, Goals (VMG)

For strategic business plans, the Vision, Mission, and Goals (VMG) of the participating organizations and the program are developed or re-examined. For other types of business plans, the VMG behind the program should be clear.

In formulating a strategic plan, an organization usually creates or re-examines its Vision, Mission, and Goals (VMG) since these define the very reason that it exists. Typically, the main stakeholders are invited to provide inputs (this depends on the type of organization). In setting up a new organization, articulation of VMG often follows the decision to operate. In this case, the VMG already exists in spirit and is the source of the founders' motivations and principles. Although this approach might seem logical, it should be the other way around. Business plans prepared for new products or organizations typically include the organization's VMG and link them to the rationale (see next section).

Ample instructive material is available to guide the reader through the process of formulating a VMG and it is therefore not necessary to elaborate further on this topic. The VMG of a microinsurance program will typically aim to distil and capture its main reasons for engaging in its activities and what it sees as the positive outcome in the future.

Box 1: Meaning of Vision, Mission, and Goals for a for-profit organisation

Vision

A vision is a short, succinct, and inspiring statement of what the organisation intends to become and to achieve at some point in the future, often stated in competitive terms. It is the category of intentions that is broad, all-inclusive and forward-thinking. It is the image that an organisation must have of its goals before it sets out to reach them, without specifying how these desired ends will be accomplished.

[Warren Bennis, a noted writer on leadership, stated, "[a vision can be] as vague as a dream or as precise as a goal or a mission statement."]

Mission Statement

A mission statement is an organisation's vision translated into written form. It is a concise statement of goals and priorities and makes concrete the direction and purpose of the organisation. It is a vital element in any attempt to motivate management and staff and to give them a sense of priorities.

Goals

Goals are specific objectives that relate to specific time periods and are stated in terms of facts. The most important, overarching goal is to increase stakeholder value.

Source: www.icsti.su/rus_ten3/1000ventures_e/business_guide/crosscuttings/vision_mission_strategy.html

2.2 Rationale and General Business Strategy

The rationale for setting up a proposed program is linked to the Vision, Mission and Goals (VMG) of the organization and to the characteristics of the market place (Chapter 3). An analysis of Strengths, Weaknesses, Threats, and Opportunities (SWOT) is helpful for supporting the rationale.

The rationale is a series of strategic reasons for pursuing the business plan. One of these reasons should be that it supports the VMG of the organizations behind the microinsurance program. For example, a co-operative VMG is likely centred on providing services to its members, which includes access to insurance. Similarly, an MFI exists mainly for purposes of providing microfinance services to its clientele (or membership), and microinsurance is a natural complement that protects both its clientele and its loans portfolio. An insurance company set up by private investors, on the other hand, is motivated primarily by producing a competitive return on its capital and surplus. Hence its rationale for providing microinsurance services is inextricably linked to a profitable market opportunity.

The rationale (business case) for the microinsurance proposal must be built up and presented convincingly. Moreover, it should be linked in a congruent way to the arguments made in other sections of the plan. In the macro environment section (section 3.1 below), the country's economic fundamentals, demographics, degree of poverty, state of the insurance industry, and the performance of public systems are likely to be among the cornerstones upon which the rationale is grounded. The discussion of supply and demand factors (section 3.3 below), which aims to identify the servicing gaps in the market, is also key to a strong rationale.

Table 3: Checklist for a solid rationale

Test question	Supported by
<ul style="list-style-type: none"> • Has the need for microinsurance been clearly identified and articulated? • Have the benefits of the program been clearly expressed? • Is the program consistent with the organisation's VMG and business strategy? • Have all other possible options for achieving the objectives been thoroughly considered? • Is the institution / partnership capable of developing and implementing microinsurance? • Is it clear that the best option is to pursue the business plan? Why? 	<ul style="list-style-type: none"> • Statement of VMG • Organisation's overall business plans • SWOT analysis (see next page) • Market supply & demand analysis • Market research results

Box 2 Strengths, Weaknesses, Opportunities, Threats (SWOT)

Strengths and weaknesses are internal value-creating (or destroying) factors such as assets, skills or resources that an organization has at its disposal relative to its competitors. They can be measured using internal assessments or external benchmarking. Opportunities and threats are external value creating (or destroying) factors an organization cannot control, but emerge from either the competitive dynamics of the industry/market or from demographic, economic, political, technical, social, legal or cultural factors.

An organization must try to create a fit to its external environment. The SWOT diagram is a very good analytical tool, but this analysis is just the first step. Actually creating alignment is often quite difficult because in reality the two sides of the SWOT analysis often point in opposite directions. This leaves the dilemma of creating a fit, either from the outside-in (market-driven strategy) or else from the inside-out (resource-driven strategy).

Source: www.valuebasedmanagement.net/methods_swot_analysis.html

SWOT Analysis Framework

Enviromental Scan			
/		\	
Internal Analysis		External Analysis	
/ \		/ \	
Strengths	Weakness	Opprtunities	Threats
I			
SWOT Matrix			

Source: www.quickmba.com/strategy/swot

A similar exercise can be undertaken to assess the conditions and the capabilities of the institution that will develop and implement the microinsurance program. Table 6 illustrates a sample SWOT matrix adapted from an actual business plan recently prepared by the authors for an MFI-sponsored microinsurance program. This is a member-owned microinsurance mutual, which, at the time of writing, is still informal but planning to register when it has built up adequate capital to do so. It has operated for over ten years but now plans to upgrade its life and health insurance services. It enjoys a captive market composed of the MFI's own clientele. Hence the market in this matrix is regarded as part of the internal environment which would otherwise not be the case.

Table 4: Sample microinsurance SWOT matrix of a self-insured mutual

Strengths	Weaknesses
<ul style="list-style-type: none"> • Wide geographic disbursement of clientele lowers risk of epidemics and other disasters • Fairly strong demand based on market research • Tried and tested products have been upgraded based on member preferences established through market research • Ability to implement compulsory participation • Ability to regularly interact with members • Existing distribution channel of affiliated MFI lowers delivery cost • Some insurance experience and knowledge • Positive image and reputation of the organization • Trusted organization 	<ul style="list-style-type: none"> • Formal insurance management training and experience is limited • Insurance not well understood by members • Limited capital base which must be built up from surplus or from members (grants generally difficult to come by and external investment is not permitted) • Fast access to emergency MFI loans is more attractive to many members during times of emergency which lowers demand for insurance • Significant older population segment • Relatively poor capacity to pay • Shortage of skilled staff in management and analysis
Opportunities	Threats
<ul style="list-style-type: none"> • Fast growing insurance industry • Relative invisibility of microinsurance segment to commercial insurers • Tax exemptions for member-owned microinsurance programs • Improving trends in population health and life expectancy • Strong alliances and partnerships • Low paid-up capital requirements for member-owned programs • Support from senior officials in government 	<ul style="list-style-type: none"> • Weak insurance regulations and oversight • Misplaced public aversion to matters related to death and misfortune • High inflation in medical services • Underdeveloped capital markets (making it difficult to offer long term insurance products) • Absence of industry performance standards • Country prone to natural disasters • High risk of epidemics diseases (e.g. bird flu, dengue, HIV-AIDS) • Weak health care infrastructure • Limited professional base (accountants, fund managers, actuaries, IT, MIS staff) from which to recruit • There is some over-lap with government health and social insurance programs • Difficult to access reinsurance

In this case, the organization sought external expertise to develop its products and to further develop and strengthen its core competencies in terms of the operating policies, procedures and systems, staffing, governance and member mobilization. It then opted to self-insure because there was little interest by commercial insurers to carry their products (i.e. it had no choice but to pursue a resource-driven strategy). This required it to operate informally until it has raised enough capital from its membership (i.e. its insured customers, the MFI clientele) to register. This was carried out in full view and with silent support from the regulators who approved the strategy because it had been well documented in a business plan and discussed with them.

2.3 Performance Indicators³

To monitor performance of a microinsurance program and to describe it in a business plan, ten key performance indicators are recommended.

Before continuing further on the topic of microinsurance business planning it is necessary to digress a little, in order to introduce the concept of microinsurance performance indicators. There are ten key performance indicators (KPI) which should be used to monitor performance. For business planning purposes, the KPI should be projected and target values set at each period in the plan (discussed in later sections).

All ten KPI are relevant for all types of institutional models. In case a program involves multiple partners, most will be capturing some of the operations data. For example, a Third Party Administrator (TPA) may capture some of the claims data, the distributor the enrolment data, the insurer the investment data, and so on. Although each organization should monitor its own dashboard of indicators, it is also crucial for them to collaborate and calculate a complete set of KPI from the perspective of the end-user, i.e. the market, for this is where the program is being compared to others and its competitiveness evaluated. For the expense ratio, for example, all partners' expenses should be included to determine the cost of delivering the product to the consumer.

Box 3: Key performance indicators (KPI)

Measuring financial performance reveals a program's strengths and weaknesses. It allows managers to determine how the program is performing and to identify which areas need improvement. The indicators are, however, preceded by nine key principles regarded as an integral part of microinsurance management and "a priori conditions" without which transparent and accurate performance measurement is impossible.

The 9 key principles

No.	Principle	What it means
1	Separation of data	Capture separate microinsurance data. Accumulate it and manage it as a valuable resource.
2	Collection of relevant and accurate data	Seek expertise to design an MIS and a database, and then collect correct and accurate data.
3	Production of financial statements	Using the data, prepare Balance Sheet, Income Statement, and Cash Flow Statement using accrual accounting principles.
4	Calculation and setting up reserves	Calculate reserves correctly and then fund them. Reflect the reserves correctly in the financial statements.
5	Efficient claims management	Continuously monitor and analyze claims data to assist with understanding of the insured risks and claims experience.
6	Clear investment policy	Develop and abide by a formal investment policy.
7	Technical expertise	Develop the right technical expertise.
8	Transparency	Communicate in a transparent manner to all stakeholders.
9	Client satisfaction	Focus on client / member satisfaction.

³ Most of the content in this section is from Wipf, J. and Garand D., 2008: *Performance indicators for microinsurance: A handbook for microinsurance practitioners*, published by ADA, BRS, MIN Microinsurance Working Group. See www.microinsurancenet.org for more information.

The ten indicators are just the key indicators and not intended to be an exhaustive monitoring system. They measure performance in key areas of the program, and more detailed indicators should be used to diagnose and ferret out specific problems. Trends in the indicators should be analyzed and monitored closely as these are more informative than snapshots of indicator values.

The ten key performance indicators (KPI) for microinsurance

No.	Indicator	Interpretation from consumer perspective	
1	Incurred expense ratio	Shows how efficiently the service is delivered.	Product value
2	Incurred claims ratio	Shows how valuable the programme is.	
3	Net income ratio	Shows how profitable the programme is.	
4	Renewal rate ratio	Shows how satisfied the insured are.	Awareness and satisfaction
5	Coverage ratio	Proportion of the target market that is covered.	
6	Growth ratio	Rate of growth for a given period.	
7	Promptness of claims settlement	Time spent to settle claims, an indicator of service quality and efficiency.	Service quality
8	Claims rejection ratio	Proportion of claims rejected which points to how well the insured understands the product.	
9	Solvency ratio	Financial strength of the programme.	Financial prudence
10	Liquidity ratio	Financial capacity of the programme to pay its short-term liabilities.	

Inherent in this set of principles and indicators is the assumption that microinsurance managers are guided by a business plan which is updated regularly. Preparing a business plan and managing it accordingly is in itself an important principle that all business endeavours should practice automatically. If an organisation has other businesses or services aside from microinsurance, the business plan should be a comprehensive one but with a sub-plan for microinsurance. All business plans naturally contain performance targets; for microinsurance these targets should include projected key indicator values in the business plan. Later, as Management monitors actual performance, special attention should be given to the variance in actual and projected indicator values.

3. Market Place and Competition

14

3.1 Overview of the Macro Environment

The macro environment affects microinsurance performance and determines many of the risks the insureds face.

Near the beginning of most business plans it is necessary to include a brief but complete description of the macro environment. Why is background information important? Both domestic and foreign readers know that the macro environment directly affects the performance of financial service industries including insurance. Moreover, macro conditions determine many of the risks that the population faces. The reader also knows that the business risk of venturing into microinsurance is affected by the macro environment.

Much of this information can be found online, in newspapers, or in related publications. Macro environment information includes:

- **Physical geography:** size of the country, location, physical features, amount of arable land, coastal areas, etc.;
- **Population:** Trends in population size, density, demographics, health, life expectancy, birth rates, mortality rates, immigration and emigration rates, urbanization rates, fertility rates, composition and ethnicity, languages, livelihoods, etc.;
- **Economic policy and performance:** Inflation rates, interest rates, taxation, GDP growth rates, unemployment rates, structure of the economy, recent economic reforms, and **others as deemed relevant**;
- **Environment:** What is the state and trends in environmental preservation or degradation? Environmental problems are often the cause of the specific problem that the microinsurance program is trying to address.
- **Social indicators:** Income disparity, poverty rates, size and growth rates of middle classes, etc.;
- **Health indicators:** doctors per person, maternal and infant mortality rates, out-of-pocket expenditures, principal illnesses etc.
- **Main challenges:** Level of corruption, public finances, infrastructure, etc.;
- Others as deemed important.

The targeted business plan reader should not be overburdened with too much information as it can become a distraction. A decision must be made what is relevant and worth researching further by the plan developer.

Identification, analysis, and interpretation of trends are helpful since these are often linked to the expected performance of the program in later sections. For example, if inflation is on the rise it is sure to have a significant compounding effect on expenses, interest rates, and insurance amounts in the latter years of the program.

3.2 Regulatory Environment

The regulatory framework may affect the product/program in a number of ways – design, price, service quality, financial strength, which organizations may carry the risk, and others.

The regulatory framework is a critical enabling factor and it is therefore important to know how the program will fit into existing regulations that govern insurance and social protection programmes. A section summarizing those aspects of the regulatory framework which affect the program is needed near the beginning of the planning document. In many cases more than one regulator may have jurisdiction. For example, a cooperative insurer will find it necessary to explore both insurance regulations and co-operative regulations. A sponsor of a health microinsurance program may also need to consider regulations that govern providers, especially if it intends to set up clinics as part of the health microinsurance solution.

In some countries insurance regulators have devised definitions of microinsurance in terms of coverage amounts and other parameters and have used this to develop special microinsurance regulations.⁴ Most countries have not come this far, but in some there is more than one legal option for registering a program.

If products are supplied by insurance companies, risk-management and capital requirements are clear since these are spelled out in insurance regulations. Still, there may be some special regulatory provisions such as tax incentives for microinsurance products. Regulatory requirements for insurance agents also need to be explained in the business plan.

In some countries Ministries of Health provide regulation or guidelines for microinsurance health schemes (for example Rwanda and Tanzania). In most countries however, there are no regulatory provisions that permit programs to bear the insurance risk short of registering as a full-fledged insurer with capital and surplus requirements fully paid up. Nevertheless, numerous self-insured programs operate within grey areas of the law and are tolerated because of their important contributions to the state's overall social protection aims.

3.3 Market

Insightful and thorough analysis of market supply and demand for microinsurance is necessary in order to build a convincing case for the proposed program.

A portion of the business plan should be devoted to a description and analysis of the insurance market. Here, we refer to the market as the entire span of insurance activities, whether it is private commercial or concerns public provision of healthcare or social protection services. Readers may prefer to place the description and analysis of these various sectors into separate sections of their own document.

While some details may only serve to heighten and satisfy reader interest, the main purpose of this presentation is to enhance understanding of the market in which the microinsurance program will operate, and to present information that supports the business case. It is common to divide this into two major parts: the supply side of the market which refers to the related industries, service providers, and state programs; and the demand side which is concerned with descriptions of the various consumers and the servicing needs of the targeted segments.

⁴ For example, in India and the Philippines

3.3.1 Supply Side

Information about the existing supply of private and public insurance and social protection schemes is necessary as this will expose the servicing gaps for the target market and hence a rationale for setting up the proposed program.

Information about the existing supply of private and public insurance and social protection schemes is necessary as this will expose the servicing gaps for the target market and hence a rationale for setting up the proposed program.

In any insurance business plan, many questions arise with respect to the domestic insurance, healthcare, and other related industries, both public and private, that are relevant to the proposed product(s). Therefore, a description and analysis of these is needed. Furthermore, since the basis and rationale for getting into microinsurance often hinges on a lack of existing relevant and accessible options in the marketplace and public institutions, illustrations of industry performance in this section should reflect these gaps. When the rationale is illustrated in the business plan, references can be readily made to the industry statistics, state statistics, and other facts presented here.

Formal commercial insurance industry

In some countries the insurance industry is fragmented and comprised of multiple industries. In the Philippines for example, the private insurance sector is made up of life and non-life insurance which is regulated by Insurance Commission, pre-need which is under the Securities and Exchange Commission, and prepaid managed health care regulated by the Department of Health. Furthermore, there is a significant informal insurance sector in that country which is integrated into the operations of many NGOs, rural banks, and cooperatives.

For a feasibility study being conducted for a new community-based health insurance program in Uganda it would probably not be necessary to analyze the formal insurance industries in that country. In other cases, though, it would be very important. Consider a foreign insurer aiming to offer microinsurance to the public in an unfamiliar new country using its advanced cell phone technology. Clearly, this insurer would find it crucial to investigate the supply of alternative products in the lower income market and to analyze the various insurance industries.

In table 3 the main considerations for the latter case are summarized. It should be noted that **only areas relevant to the particular plan would need to be researched** while for other situations additional analysis may be needed.

Table 5: Analysis of a formal commercial insurance industry (as relevant)

High-level question	Probing analytical questions
What is the market potential? What are the growth trends? How competitive is it?	<ul style="list-style-type: none"> • What were the annual growth rates of each insurance industry in recent years? • What are the main factors contributing or hindering industry growth? • What is the insurance penetration and insurance density?⁵ How does this compare to developed and less-developed, neighboring countries? • How competitive is the industry? Is there a trend in consolidation?
Regulations	<ul style="list-style-type: none"> • How is that industry regulated? • What is the effectiveness and quality of insurance industry oversight? • How does regulation affect industry development?
Taxation	<ul style="list-style-type: none"> • How is the insurance industry taxed? • What effect does taxation have on the industry's uptake, competitiveness, and development? • Are there special tax breaks for microinsurance?
How healthy is the industry? How much investment is needed to set up?	<ul style="list-style-type: none"> • How much capital and surplus is required to set up each type of insurer? • How well is the insurance industry capitalized and reserved? • Are capital and surplus requirements risk-based? • Have there been any industry failures recently? If yes, what are the main reasons? Has this been a catalyst for improved regulation?
Are any insurers providing microinsurance?	<ul style="list-style-type: none"> • Are some companies operating in the down-market? • What types of services are they offering, and how is this working out? What's not working well? • Are any offering health insurance? • Are there some supply gaps in the market?
Can foreign companies come in?	<ul style="list-style-type: none"> • Are foreign companies allowed to operate? Under what limitations? • If so, how has foreign participation impacted on industry development?

Much of this information may be available from industry analysts, reinsurance companies, industry associations, and financial publications. Regulators' annual reports are also an important source of information but these are often outdated since they usually take more than a year to compile. Statistics on the informal insurance sectors⁶ should also be presented if anything is available.

Analysis of microinsurance suppliers and programs should be conducted since this will shed light on what is possible, what is working, or at least what has been tried in the country and in the current context. In the case of providers aiming to operate in non-captive markets⁷ it is also necessary to quantify the level of competition. A third objective is to identify and analyze the gaps in products and services in the micro-insurance marketplace.

⁵ Insurance penetration is defined as the total premiums divided by GDP, whereas insurance density is the amount of premium per capita.

⁶ For example, unregistered programs of MFIs, cooperatives, etc. but since these are not regulated it is difficult to get reliable information on them.

⁷ An example of a captive market is when an MFI sets up a program for its existing clientele- here, enrolment is automatic in many cases. An insurer aiming to sell a product to the general public is operating in a non-captive market.

If available, a summary inventory of microinsurance and service providers should be included although this may be not be up-to-date in countries where informal programs have proliferated (such as in the Philippines and India, for example, where many programs are not registered with any regulator) and in countries where many new programs are being set up annually. The International Labour Organization (ILO) has published inventories of microinsurance programs for Africa and a number of countries such as Philippines, Bangladesh, Nepal and India. The Philippines' version, published in 2005, was then just a sample rather than an inventory since the hundreds of informal schemes (and most formal ones) were not included.

Table 6: Framework for analysis of microinsurance providers and services

Objectives	Analysis
<ul style="list-style-type: none"> • Determine what types of schemes are working well or not working well • Identify types of products in the market and the risks covered • Determine which segments of the poor population can access the products • Analyze servicing gaps • Characterize and evaluate the competition 	<p>As available, provide a breakdown of the MI market in terms of:</p> <ul style="list-style-type: none"> • Type of delivery model – e.g. partner-agent, community-based program, etc. • By location (e.g. by province, state, region) • By types of products and risks covered • By duration of operation • By areas of operation • By size of program in terms of outreach, premiums, benefits, savings, reserves, coverage volume, etc. • By type of market segment (e.g. microfinance clients, co-operative members, etc.) • Others as available and relevant

The information in most cases will be limited to what is available online, in surveys, or from other databases available nationally or locally. For an organization entering the market for the first time, it may be well worth it to conduct its own survey.

Private and public health systems

For health microinsurance business plans, an in-depth analytical discussion of both private and public health systems is important. This should be geared towards the following areas:

- Is there a public health system? How is it structured and funded? How well is it performing?
- What is the quality of services in public facilities?
- How accessible are public facilities and service providers? Are user fees charged, officially or unofficially?
- What is the degree and impact of corruption within the public healthcare system?
- What is the distribution of health facilities and providers in rural areas?
- What do most citizens prefer, private or public providers and/or traditional medicine? Why?
- Where do poor households seek treatment? Why?
- Are good quality generic drugs available?
- What is the level of inflation in the cost of medical services?
- What is the breakdown and trends in healthcare expenditures in the country?

Other public protection and welfare schemes

Often, the main rationale for developing microinsurance is limited accessibility or inadequacy of public insurance providers and state-financed social protection programs. To make a convincing case in the business plan, it is necessary to describe the state of existing public schemes operating in the country with particular relevance to the target market, including:

- What types of social protection programs operate in the country?
- What is their outreach? What are the trends?
- What is the mandate of each program? Who is eligible to participate? What percentages of the targeted sectors are covered?
- How accessible are public programs to the target population?
- How are the programs financed? What is the cost? What portion of the cost is borne directly by participants? Are there any subsidies and redistribution to the lower income sectors?
- What types of risks are being addressed? What are the benefits? How adequately do they meet the needs of the public, and especially the poor?
- Given the economic prospects and trends in the country's demographics, what is the outlook in terms of their sustainability?
- What public health programs are already in place for the target market?
- Can complementary design features of a microinsurance program improve access and quality of the public program?
- What is the level of corruption related to accessing government services?
- How does the government rhetoric about its service provision relate to the actual provision that people experience?

Summary

These suggested frameworks are intended only as a general guide and should highlight that thoroughness is often required, especially for plans proposing new programs and aiming to raise donor or investor funds.

Not all of the information will be relevant for all business plans. For example, it may not be deemed necessary to have a nationwide analysis and exhibit of microinsurance programs in Brazil, if the focus is on developing a product for a small target group in the state of Maranhão. Even if relevant, information may not always be available. In this case the questions may still be raised to confirm that the desk research was conducted as thoroughly as possible. In other cases more than enough information may be available and care should be taken not to overburden the business plan reader with too much detail as this may detract from the main message of the business plan. Alternatively, some information may be presented in summary form with details in an appendix.

3.3.2 Demand Side

Information about the existing market and its needs is necessary in order to develop a suitable and affordable program. To get this information, market research should precede design and development of a microinsurance program.

A business plan would be incomplete without a detailed analysis of target market demand. The purpose of this is to depict the true need, type and quantity of services required. Information on microinsurance demand is needed for effective product design and projecting future performance.

Overall demand for insurance is largely driven by the demographics, economic stratification, livelihood options, and other characteristics of the population described in the macro environment section. Market demand is also influenced by the level and type of consumer education being conducted. To understand it, the areas of vulnerability of the targeted lower income population segments must be identified together with the ways in which the risks affecting them are coped with and managed. Not all types of risks, however, can be mitigated by microinsurance. Therefore the program designers should evaluate which types of prevalent risks are eligible for cover.⁸

Even if information on other demand studies is available, the results are usually not directly transferable to another situation. If the plan is to develop a new product or to offer an existing product in a new market, such information can be a very useful guide but it is still necessary to conduct one's own market research. Design of the product can then be fine-tuned and the marketing strategy refined in accordance with specific needs.

Why 'demand research'?

For an insurer, research enables an informed decision about whether or not to enter the market, what types of products will work, and the market segments to target. In reality though, most insurers do not conduct their own research but rely on organizations with the potential to distribute their products to do it for them. For organizations such as MFIs the target market segment is already set, and their research is intended to identify needs as well as capacity and willingness to pay.

Once a product has been conceptualized, research helps to identify those specific product attributes that match the needs, preferences, cash flow patterns, and other capacities of the target market. Market research can also identify complementary activities that reinforce microinsurance such as preventative health education and nutrition. Furthermore, market research on an existing product sheds light on its accessibility, relevance, pricing and effectiveness. Once a product has been proven successful in one program, market research can be used to assess the potential for offering it in a new market or to alternative market segments. Market research can also reveal people's understanding, perception, and trust in formal "risk pooling" mechanisms which are useful for designing effective consumer marketing and education strategies.⁹

Rather than getting into a detailed discussion on how to design and undertake microinsurance market research, the reader is encouraged to download one or more of the numerous free guides available on the web which can provide a wealth of information and tools. One should keep in mind that since microinsurance is an evolving industry, new and improved methodologies will likely be available in the near future.

Box 4: Content of one published guide on demand research¹⁰

- Why research on market demand for microinsurance?
- Where does market research fit into the product development process for microinsurance?
- Who should support the research?
- What are the first steps in designing a demand study?
- What are some key questions for demand research?
- When should a demand study be done?
- Who should carry it out?
- What topics should a microinsurance demand study cover?
- How will the information be collected?
- What about the budget?
- Checklist for a research plan

⁸ See section 3 of *An Introduction to Microinsurance* published by the MiN Capacity Building Working Group

⁹ Cohen, M. and Sebstad, J. 2006: *The demand for microinsurance*. In Churchill, C. (ed.): *Protecting the poor: A microinsurance compendium*. Munich Re Foundation/ILO, Geneva

¹⁰ *Microfinance Opportunities and Abt Associates Inc.*, 2006: "Guidelines for Market Research on the Demand for Microinsurance", United States Agency for International Development.

Willingness and capacity to pay

An important aspect of demand research is to determine the amount that consumers are willing to pay for a particular product. Some use a series of questions that guide the consumer towards a minimum and maximum that they would be willing to pay for a specified coverage amount of a given risk. The results of the sample are then tallied to determine a range of amounts that the market is prepared to pay. Others have developed interactive tools for this purpose. For example, to help poor communities manage the trade-offs when considering healthcare benefits, the tool used by one India-based organization allows prospective participants in health microinsurance programs to jointly select specific components of their health insurance package with a clear recognition of the price related to each component.¹¹

A note of caution: It is the authors' experience that the actual amount consumers are willing to pay for a given product is usually lower than that indicated in research results. Therefore, care must be taken in how this information is used. Even if the research is carefully designed it can still result in biased answers. People are sometimes guided towards a specific answer by the interviewer or due to peer pressure in focus group discussions. In addition, people's real imagination is limited and their true appetite for a product will only be known once it is actually presented to them. It is always necessary to pilot-test a product to determine the effective willingness to pay before a full scale roll-out.

Box 5: Research conclusions can be misleading

In 2008, an MFI-sponsored mutual insurance program in Vietnam surveyed its members to assess demand for types of microinsurance products and willingness-to-pay. From the results, demand for insurance protection and retirement savings was deemed to be very high. The research team concluded that, aside from the weekly insurance premiums of 1000 VND (USD 0.06), members were willing to save at least 8000 VND (USD 0.50) per week for retirement. An insurance product was designed which was bundled with 5000 VND (USD 0.30) weekly retirement savings. When the product was piloted it was met with stiff resistance to the weekly retirement savings in spite of a well-executed socialization strategy. The product was subsequently modified and the savings element dropped. This was followed by a very successful full launch that took account of the results of the pilot project.

Potential marketing performance

Aside from aiding with product design, demand research is useful for quantifying the potential business volume. This information is calculated from a combination of sources and may also require interviewing institutions, networks or regulators to determine the potential microinsurance market. For example, a regulator of co-operatives should have a good estimate of the number of primary cooperatives, their memberships, and the volume of savings and loans. A network of MFIs or cooperatives should have similar information about the clientele or membership of its affiliates. As will be shown later, this is one of the main inputs for projection of financial performance.

If demand research is conducted, a detailed description of the methodology, questionnaire, and a tally of results may be added as an annex to the business plan. In the main body of the document, only a summary description of methodology, purpose of the research, and the key findings should be discussed (more in section 9 below).

¹¹ See website of Delhi-based Microinsurance Academy www.microinsuranceacademy.org/chat

4. Product Development and Pricing

Product development and pricing follows market research and requires actuarial capacity. The simplest approaches may sometimes be adequate, but there are advantages in utilizing more sophisticated modelling techniques.

Section 5 describes the type of analysis and research that will identify the needs and gaps in the market. A number of suggested publications and websites are provided to assist with the various types of research involved. This section presents a (somewhat ideal) logical sequence of steps for designing and pricing products **based on the analysis of research findings**. In addition, some suggestions are offered on how all of this should be presented in the business plan.

Usually, a decision to offer microinsurance services does not begin from a zero base. For example, many organisations interact regularly with their customers and therefore have a good idea of the various risks affecting their families and their insurance needs. Nevertheless, to ensure a good product fit, market research should be conducted without any presumptive bias.

First, the **risks affecting targeted households are identified and understood from the results of the market research** (Section 5), as well as the impact of the risks, and how they are currently managed at the household, community, and institutional levels.¹² From this list, **the insurable risks are selected** as prospects for product development.¹³ The fundamental insurance principles¹⁴ and conditions for risk pooling must also be suitably present for the programme to work well.

The question then arises: **“faced with a limited capacity to pay, which of the identified insurable risks would most target market consumers prefer to insure first?”** This will hopefully be answered by the research findings. It may not always be possible, however, to insure those risks at the top of the list. For example, a small farmers’ cooperative may rank protection against the risk of crop failure as their top priority. Since most insurable events causing crop failures are large-scale natural phenomena affecting many farmers at the same time, setting up a self-insured crop insurance programme would be very risky. Crop insurance would only be possible for the cooperative if a suitable partnering insurance company or government programme were to be found. Thus, a decision on a product is always based on a combination of market needs and other realities that determine feasibility.

Having decided which risks to insure, **the benefits and product features in combination with the capacity and willingness to pay are estimated**. This may seem like a ‘chicken-and-egg’ exercise, but all this information can be learned in the same round of research. Typically, in the market research, one can determine the maximum amount that an interviewee would be willing to pay by describing a hypothetical product and vice versa. In doing this, care must be taken to offer only realistic and feasible options so as not to distort the research results with responses based on unrealistic expectations. For example, there is not much point in probing a respondent for the maximum amount she would be willing to pay if an unlimited number of her extended family members were included in a comprehensive health insurance programme since she probably could not afford the required premium for such a package anyway.

¹² See section 1 of *An Introduction to Microinsurance* published by the MiN Capacity Building Working Group

¹³ Several categories of risks and their suitability for risk-pooling are discussed in section 3 of *An Introduction to Microinsurance* published by the MiN Capacity Building Working Group

¹⁴ Insurance principles and conditions Appendix A of *An Introduction to Microinsurance* published by the MiN Capacity Building Working Group

To recap, the steps in analysing the market research results should have revealed: the risk(s) to be insured; the household members to be covered; the range of premium (or contributions in the case of member-owned schemes) that the market is able and willing to pay; and correspondingly, the range of protection and benefits expected. In addition, market research will provide a preliminary indication about the feasibility and appropriateness of insuring the selected risk(s). The product concept has now begun to take shape.

What has been described here is an ideal approach, and often not all of these steps are taken in practice. Sometimes, products are based on much simpler decisions. For example, an MFI venturing into microinsurance for the first time will often start with a credit life product regardless of clientele preferences because this is the easiest to begin with. Once that programme is running, and when the basic skills in delivering insurance have been developed, other products may be added. Alternatively, an MFI may develop a microinsurance product because it completes a broader risk management strategy involving a combination of microfinance, microinsurance, and other services.

Nevertheless, even if such simplified strategies are pursued, the authors recommend that the market research and business planning exercises are undertaken to ensure informed decisions.

Each of these steps, to whatever extent they are executed, should be succinctly documented in the product section of the business plan. Market survey details, such as questionnaires, can be added as appendices, while summary results and conclusions leading to product decisions should be presented in brief. The objective is to convey the reasoning behind the product decisions made.

At this point in the plan, only the rates and benefits ranges that the market expects are known. From this, **a feasible combination of premium rate and product must be derived.** This should be calculated by trained actuaries with specific microinsurance experience in cooperation with the distribution channel, since it knows the prevailing conditions and its clientele well (and ideally played a hand in the market research). The challenge is that if the premium rate is set too high in relation to expected benefits and product features, the market will find it expensive, making it difficult to achieve a good participation rate. On the other hand, the programme will not be feasible if the rate is too low.

The approaches that actuaries use to calculate the appropriate price for a given product may vary, depending on available information and other factors. For self-insured programmes, or to get the fair price from the perspective of the insured, perhaps the best way is to set up a model that simulates the microinsurance programme. It can be done from the insurer's perspective or from that of the programme organiser.

Box 6: Determining feasible combination of benefits and rates with a modelling approach

In a modelling approach, all expected financial outflows are identified and projected for each accounting period¹⁵ over the duration of the business plan. Included are operating expenses (marketing, administration, depreciation, etc), reinsurance, and expected claims costs. Likewise, projected inflows such as premiums, interest earnings, commissions, subsidies, and other expected income are incorporated. Third, at each point in the projected future the accrued liabilities (reserves) must be estimated and funded in the model. Finally, one should add appropriate margins for surplus accumulation, build-up of contingency reserves (with security loads), and for factors such as increasing / decreasing risk (e.g. aging target market and AIDS). The high level outputs of the model are future Income Statements (Profit & Loss), Balance Sheets, and Cash Flow Statements.

From the projected financial statements, some of the projected Financial Key Performance Indicators are calculated and the model is adjusted until targeted values are realized (in the future). For example, an incurred expense ratio of 20 percent or lower can be set as a target for year 5. The model can be adjusted until this value is achieved.

15 In the authors' experiences, models with quarterly intervals are sufficiently accurate. However some organizations want a monthly model in order to incorporate the outputs into post-launch monitoring and to align it with their other business plans.

All this requires inputs from the (prospective) program managers with respect to assumed expenses, growth rates, options for investment, and others. Forecasted / assumed inflation rates, investment rates, and other macroeconomic factors are loaded in the model. Primary information about the target market is also needed; for example, in developing life, disability, and health products the demographic profile of prospective insureds is very important.

Assuming all the information listed above is available, one then iteratively tests various combinations, adjusting premium and benefits as required, and converging on a feasible product-price combination. Ideally, this approach results in a product which the market wants and is appropriately priced.

As this is considerable and complex work, it requires a person with actuarial training to set up. It is, however, well worth the effort and has advantages over a more simplistic approach since it allows complex tests such as a) effects of adding or deleting various product features; b) amount of start-up capital needed to survive contingencies; c) effectiveness of marketing approaches; and d) Others. A good model can also detect demographic drift which results in increased or decreased risk over the years; this happens when participants as a group age, for example, or when an MFI targets younger clientele combined with aggressive expansion.

Modelling is especially useful for longer term and interest sensitive products. For start up health insurance programs, not enough information may be available to go through this exercise – simpler methods are then more appropriate.

Very often, programs without a partner insurance company lack access to the actuarial expertise required to price products correctly. In such cases, some simply pro-rate the premium from similar commercial or microinsurance products in the market. For some simple products like credit life one can sometimes get away with this approach, but in general this practice is risky since these other products were developed under different conditions and usually for another market with different characteristics and needs.

Pricing a microinsurance product is quite technical and should be customized using local experience data (if available) and other local variables as much as possible. If the program is new and experience data is unavailable, the actuary has to derive starting rates from other information and then adjust the rates after some experience develops. Capturing operations data is thus vital for pricing adjustments and for monitoring as well (see section 6.2.2).

With the product now priced and the benefits and conditions clearly defined, the financial performance should be presented on that basis as prospective financial statements. If the modelling approach was used, these just “fall out” as the model’s output. This expected financial performance should be presented as a separate section in the business plan (see section 7 below).

5. Marketing and Distribution

Having a good product is not enough. The business plan should demonstrate how the product will be efficiently promoted and delivered to the target market.

Having an attractive and equitably priced product will not be enough to ensure success; an effective distribution strategy is also needed in order to achieve the required growth and efficiency to succeed. This is important even if participation in the microinsurance program is compulsory as it is the case with many credit-life programs. The implementation strategies for distribution therefore have to be presented in a dedicated section of the business plan.

5.1 Target Market

In all cases, the target market should be described in the plan. The demographic profile, livelihoods, location of residences, etc. in relation to the general population is needed. Typically, NGOs and cooperatives focus on servicing specific market segments which they describe in their business plans in terms of household income, livelihoods, land holdings, location of residence, ethnicity, and so on. If possible, the size and geographic disbursement of the target market should be included since this will convey the potential for growth and build up the case for a particular distribution approach.

5.2 Social Marketing Strategy

Social marketing refers to empowering the target group through their full participation in the microinsurance program. This marketing goal is fully achieved when households consciously and willingly make insurance an integral part of their livelihoods. As insurance is not an easy concept to teach, an effective communication strategy is required which should include basic financial and insurance literacy as well as consumer protection. This strategy must be designed to build or reinforce trust in the front-line organization.

One might conclude that if participation is compulsory and automatic such as with many cooperatives or other types of channels, minimal effort and investment is required in this area. Nothing could be further from the truth. If clientele are forced to enrol in a program that they do not understand well, they will resist and many could drop out.

How will prospective insureds be educated about the product, their responsibilities, how to claim, etc? For most MFIs, this begins by training field management and staff who must understand all aspects and be themselves fully convinced that the product will work. Such training must usually be preceded with a thorough (re)orientation on insurance awareness and concepts. Often, field staff initially resist because they see it as involving a lot of extra work. This can derail an otherwise seemingly good strategy. Some organizations overcome this problem by providing additional performance-based compensation such as commission to their staff.

Box 7 illustrates the outline of a socialization strategy of a not-for-profit MFI with a self-insured microinsurance program. This MFI, already mentioned in section 2.2, decided to upgrade its existing program by improving life and health coverage and adding retirement savings. It also decided to spin off the insurance fund into a separate, member-owned organization.

Box 7: Socialization strategy of one non-profit MFI with a self-insured mutual insurance fund

Here is an actual example of a socialization strategy that one MFI recently implemented in a southeast Asian country. This strategy is not directly applicable to other situations.

- 1) Design an improved value-added product package
 - Improve benefits based on needs expressed in marketing survey by increasing life and health benefits
 - Add expressed need for retirement savings
 - Pay attractive investment returns on retirement savings
 - Conduct an information campaign which emphasizes the message of higher benefits
- 2) Mobilize full support of MFI officers and staff especially at the branch level for the upgraded product package
 - Educate officers and staff on the importance of insurance and retirement savings for themselves and their own families as well as for members' families
 - Orient officers and staff on the features of the upgraded package and on plans for formalizing the program
 - Train officers and staff in all operational aspects of microinsurance that they are expected to participate in
- 3) Reinforce and build on the trust that members currently have in the institution by giving fast and reliable claims processing service
 - Deliver better service in terms of processing claims, especially claims against serious illness
 - Broadcast the actual payment of claims to emphasize that the MFI is reliable and efficient
 - Provide for good coordination and mutual support between officers and staff of the MFI and the mutual
- 4) Help members make the transition from pure trust in the MFI to making it a partner in shaping their own socio-economic advancement
 - Financial literacy training and advice for MFI members
 - Insurance literacy that will position insurance as a protection mechanism
 - Train MFI staff to provide sound advice on using credit, savings and insurance to build and protect their assets, health, and life
- 5) Empower members through equity participation
 - Raise capital from members to increase sense of ownership in the program

In cases where the market is not captive, insurers often team up with organizations and train them to be effective marketing channels. In Peru a large insurer approached the national irrigation association, a federation of local irrigation associations. The local associations periodically collect money from farmers for water usage, some monthly, others less frequently, and appoint agents to market an accident product supplied by the insurer for the farmers. The association then collects the premium together with the periodic water bill. To make the product more attractive, the insurer plans to add other benefits such as access to a free telephone hotline giving free medical advice and pharmaceutical discounts.

5.3 Commission Structure

The design of the commission and expense structure for the distribution partner/channel is essential for the marketing strategy to work. While overall cost has to be kept low, without proper compensation the channel will not be effective. For programs with compulsory participation such as through an MFI channel, marketing is somewhat simpler and implementation cost reduced, therefore the commission can also be lower.

Aside from a marketing incentive, the degree of work that the distribution channel is responsible for must be reflected in the commission. The channel-partner expects its costs to be covered and may also aim for a bit of profit. There are some that accept commissions as low as 2 percent of premium but usually the range is between 5 and 10 percent.¹⁶ A maximum on commission rates may be imposed by regulators. As well, in many countries, regulations stipulate that only registered agents can be paid a commission, requiring one of the channel's employees to undergo training and take the licensure examination.

For products with elective participation, commission is usually higher as more effort is required to sell the product on a one-to-one basis. For example, educational savings plans are sold in this way and it takes more time and effort to educate the participant. If the product requires an individual policy, commissions are even higher if the channel is responsible for the enrolment. Aside from (usually) lower participation, these are two reasons why individual microinsurance is more costly than group insurance.

There are some programs that also achieve excellent distribution success using motivated salaried staff and by providing excellent follow-up service. One such organization is in Bangladesh which sells short term endowment products to rural households.

5.4 Describing Marketing Performance

To project targeted results in the business plan, the marketing performance indicators should be used. The awareness and satisfaction Financial Key Performance Indicators¹⁷ mentioned in box 5 may be used to calculate:

- Growth rates in participants, insured volumes, premium, and other indicators
- Coverage ratio of the target market
- Renewal rates (retention rate for non-term coverage)

Other descriptive indicators can also be added but these three are the most important.

What values of growth rates, coverage ratio, and renewal rates should be targeted? Growth of various parameters is a function of the market potential, type of product, aggressiveness of the organization, whether participation is compulsory or voluntary, and many, many more. Typically, growth targets should be discussed and decided upon with key stakeholders as described in Table 9 below.

Value of coverage ratio also depends on many factors. If a product is mandatory and enforceable then values near 100 percent will be quickly realized. If the target market is the public then likely the coverage ratio can be expected to follow an S-shaped pattern (slower at first, steeper after piloting and when experience has been gained, and an eventual slowdown, when or if values are near the “saturation point”).

Annual renewal and retention rates should at least be 80 percent; higher is better. Both reflect awareness and satisfaction of the product and high values may be directly interpreted as program success whereas lower values will drain profitability and are an indicator that something is wrong.

¹⁶ The authors know of cases where credit life commissions paid to the distributor is 40% which is clearly excessive.

¹⁷ See how to use the KPIs in Wipf, J. and Garand D., 2008: *Performance indicators for microinsurance: A handbook for microinsurance practitioners*. Published by ADA, BRS, MIN Microinsurance Working Group

6. Form of Company, Organizational Aspects

6.1 Organizational Aspects

The organization of microinsurance programs varies widely. Some programs involve only one organization which achieves everything while the structure of other programs is very complex. For example, it is possible to set up a health microinsurance program with an NGO distributing, an intermediary dealing with the insurer and performing a portion of the administration, a Third Party Administrator (TPA) managing claims and accrediting providers, an insurer bearing the risk, an IT-telecommunications company providing state-of-the-art technology, and various accredited hospitals and clinics providing healthcare services. Somehow, this program has to be profitable for all partners and yet efficient enough to result in good product value to the insured households.

A discussion on institutional options is beyond the scope of this guide.¹⁸ Here, we delve more deeply into the issue of bearing insurance risk.

6.1.1 Bearing the Insurance Risk

In deciding on institutional options for a microinsurance program, the most important consideration is whether or not to bear the risk. There are some clear advantages and disadvantages in self-insurance.

Typically, program initiators and proponents are the front-line organizations as they respond to the needs of their public. They put together and negotiate the partnerships to make the program work. One of the most important decisions they have to make is whether to keep the insurance risk in-house or whether to involve an insurer. For most life products, while it is easy to find an insurance partner, there are often challenges in negotiating the required product features, service standards, and price since many insurers do not understand the requirements of the low-income market. On the other hand, for health insurance it is much more difficult to find a risk-bearing partner, however, this varies from country to country. Consequently, a large proportion of health insurance programs elect to self-insure, whether or not this is permitted under insurance regulations.

A program may or may not be in the position to decide whether to retain the risk in-house or to cede it to an insurer. There are some significant advantages and disadvantages for both options. For example, if the decision is to self-insure then the risk of financial ruin is high, especially without reinsurance. The smaller the program is in terms of insured participants, the greater the risk of financial ruin resulting from statistical fluctuations in claims incidence (proportion of insured that claim in a year). This is so because variance in claims incidence has a direct effect on overall claims cost, and a rash of claims over and above the expected number in a given year could easily result in financial ruin of a small program. If the size of a program is increased, this variance reduces as predicted by the Law of Large Numbers (LLN). For some products like health insurance, there are numerous other risks such as variability in claim size (severity), inflation in the cost of services resulting in an upward drift of expected cost, fraud, inappropriate treatment, and others; these only compound the risk of financial ruin.¹⁹

To avoid the risk of insolvency, there should be appropriate reinsurance. For a self-insured program, access to reinsurance may be a problem if it is not a legal risk-bearing entity because reinsurers will refuse to accept the risk. It is usually easier to find an insurer to co-share the risk. In the absence of reinsurance, greater capital is required to absorb the statistical fluctuations in claims and this may be too great a burden on the insureds and the financing institution.

¹⁸ See section 8 in *An Introduction to Microinsurance* published by the MiN Capacity Building Working Group

¹⁹ See section 7 in *An Introduction to Microinsurance* published by the MiN Capacity Building Working Group

Aside from capital requirements, the greatest challenge to self-insurance is the additional capacity requirements. Insurance companies are required to employ actuaries and insurance professionals; a self-insured program may not be able to afford these people and hence has to develop this capacity over time. Alternatively, if the scale of the program may be too small to employ an actuary, it could acquire such services from a consultant. Similarly, if self-insured, greater investment in systems development is required.

Table 7: Summary comparison of self-insurance vs. ceding the risk

Aspect	Self-insurance	Insurance risk is ceded
Risk of financial ruin	Significant risk due to natural statistical fluctuations, especially without reinsurance	Still present since the insurer could be mismanaged, however risk is reduced, since it is monitored by the regulator and presumably reinsured
Investment in building capacity	If risk is retained, much greater capacity is needed, including: <ul style="list-style-type: none"> • Insurance professionals (e.g. actuary) • Investment management • IT and other systems development 	Much less capacity building is required since the insurer has the capacity already
Starting capital and surplus	Much higher starting capital required –in order to operate and to avoid insolvency from claims fluctuations	Less capital and surplus required since insurer bears the risk
Regulatory requirements	<ul style="list-style-type: none"> • If the insurance association is not registered and member-owned, requirements follow the by-laws of the insurance association • If the association is registered, compliance requires significant resources 	<ul style="list-style-type: none"> • Insurer is responsible for most of the financial regulatory issues • Front-line organization has to undergo agency training, provide certificates of cover, collect sufficient data, etc.
Cost per unit of insurance (long term)	Theoretically, should be less if economy of scale is sufficient, but there are so many other factors it is difficult to generalize	Normally higher cost but it may not always be the case; this is because compliance with regulators comes at a cost, for one
Service quality	More responsive if insurance is community-based and member-oriented	Normally reduced service quality because it is “further removed from the customer”, but this may not always be the case
Profits / losses	Stay within the program	Belong to shareholders, however some may be returned to the customers or the distributor in the form of profit sharing
Degree of difficulty	Very high for some products, lower for others.	Generally easier than self-insurance, but depends on the product

Retaining the insurance risk could pay off well in the long term, or it could present challenges. The authors have worked with successful self-insured programs that ran up large surpluses over several years, and some even accumulated enough to register as an insurance company. On the other hand, others failed and disappeared.

Another alternative that has been tried by some is setting up a protected cell company. In this case, the program uses an insurer's capital and regulatory status. Business is conducted in the name of the insurer, but the program is self-managed. A "rental" fee for the license is charged by the insurer.

Table 8: Summary features of a protected cell company²⁰

Aspect	Description
Legal	<ul style="list-style-type: none"> • Insurer's license and capital is used • Policies are issued in the name of the insurer
Insurance expertise	Sourced from the insurer as needed
Programme management	By program owners, independently of the insurer
Underwriting losses/financial risk	Assumed by program owners
Product design	Accomplished by program owners, with technical assistance from the insurer
Advantages	<ul style="list-style-type: none"> • Easier than self-insurance • Can design and manage own products legally
Disadvantages	Hard to find an insurer that is open to this because it requires great trust, and since the insurer would prefer to provide its own products.

Some programs, such as one MFI in Zambia, bear the risk jointly with an insurer. In some cases the channel may retain a portion of the risk for one or more products or it may cede the risk for one product and retain it for a second product. This happens, for example, if a) the insurer doesn't want to cover all of the risks; b) the program sponsors, either rightly or naively, perceive attractive profits to be made by retaining some risk.

Whatever decision is made has to be clearly justified in the business plan.

6.1.2 Organizational Development

Whether or not the insurance risk is retained, the business plan should include a summary of organizational development plans for the program. It may not be possible or necessary to have fully dedicated staff in the beginning. However, there should be a clear path towards full staffing. To instil confidence, the resumes of key personnel should be included as appendices.

For new organizations, the business plan should describe the training plans for staff and management. Training should not be limited to a one-off event but should be ongoing with the aim of continuous improvement.

²⁰ Lefly, Richard, and Roth, James, 2006: *Beyond MFIs and community-based models: Institutional alternatives*. In Churchill, C. (ed.): *Protecting the poor: A microinsurance compendium*. Munich Re Foundation/ILO, Geneva.

6.2 Operations Management

For detailed business plans the operations cycle should be presented; this can be divided into frontline and backroom operations. A draft operations manual should be developed as part of the pre-operations preparation and should be used for training. This manual documents the policies and procedures, forms/documents, and the roles and responsibilities of various departments. It should be finalized after the operations cycle has been fine-tuned and then kept current.

6.2.1 Frontline Operations

Frontline operations vary significantly by type of program. While the tasks that must be accomplished are similar from one program to another, there are differences in the way these are accomplished.

In a partner-agent model, front-line activities are largely the responsibility of the distribution channel. This includes marketing, enrolment, premium collection, assistance with claims, renewals, education, and similar activities. Where individual agents are deployed for selling voluntary products, these tasks are usually their responsibility. For credit unions and financial cooperatives, tellers and front office staff dealing directly with members are the frontline personnel.

Since frontline operations are quite unique for each program, these should be described in detail in the business plan. The sections in the main document should be more concerned with strategy while the appendices can provide more information such as procedures and policy manuals. The main objective is to convince the reader that the frontline operations are competently managed and executed thoroughly.

6.2.2 Backroom Operations

Self-insured programs must acquire capacity for backroom operations. Most functions are quite technical and include accrual accounting, actuarial reserve calculation, data management, development of software applications, and investment management.

To enable management and monitoring of performance of microinsurance a good **accounting system**, the right accounting methods and competent personnel are required. For new products and programs, a chart of accounts must be developed before launch, and this should be tested well during the piloting phase.

At minimum, a Balance Sheet, Income Statement, and Cash Flow Statement should be produced regularly (quarterly or monthly) on an accrual accounting basis. It is the authors' experience that new microinsurance programs are (often) reluctant to adopt full accrual accounting methods, however, this is essential.

For self-insured programs, **capacity to calculate reserves** at each accounting period is a must, and this involves capturing and managing the right kind of operations data, actuarial software tools, and competent personnel to do it. Most of the calculations are not that complicated theoretically, but they are often voluminous and time-consuming, and must be done in the right way to produce accurate financial statements. If the risk is ceded to an insurer, ability to estimate reserves is also an asset since it will allow closer monitoring of the financial key performance indicators from an overall perspective (see section 2.3).

Sound **investment management** can determine success or failure. For programs ceding the risk or those carrying only short-term products it is less important since these do not accumulate a lot of investable assets. For long-term products such as endowments and pensions it is vital to success since significant assets accrue to fund benefits paid out in the future. Surplus accumulation of programs over the years is another significant source of funds that must be invested and diligently monitored.

An **investment policy** must be set up and lists the important characteristics as follows:

- It should be a formal investment policy;
- For products with a term of over one year, the investment of reserves must be structured to match liability projections;
- The investment policy should have clear rules on asset diversification;
- The policy should have set limits on the proportions that can be invested in each major asset class, in a single asset or organization; and
- The investment policy should specify the minimum investment grade for each asset class.²¹

Microinsurance is a business grounded in statistics. These are derived from operations data. The business plan has to describe how **data will be accumulated and managed**. Data security is an integral aspect which should also be addressed.

Most organizations working with the poor either already have good systems skills or have access to them locally. In most developing countries, software development can be outsourced locally or to another developing country at reasonable cost. Although there are some excellent microinsurance administration systems out there, the majority that have been observed by the authors are highly deficient in relational database design and do not capture the right data for experience studies and calculating reserves.

Likewise, finding systems with powerful and useful applications is rare. For example, from the data that is being accumulated, the **actuarial reserves** needed for accounting can be calculated using software applications attached to the system. Similarly, **reinsurance calculations and reports** can be totally automated which are otherwise very tedious and laborious to prepare. The purpose of this application is to quantify and list the risk to be ceded to a reinsurer.

These types of applications are quite challenging to develop and it requires personnel with actuarial skills to develop the algorithms.

²¹ Wipf, J. and Garand D., 2008: *Performance indicators for microinsurance: A handbook for microinsurance practitioners*. Published shed by ADA, BRS, MIN Microinsurance Working Group.

7. Financial Planning

33

Whether or not a program is aiming for sustainability or profitability, a financial presentation is necessary for prospective planning and information. No matter how convincing the narrative portion of the business plan may be, the projected financial results are often most revealing. Above all, financial projections must be believable and reflect the objectives of the program.

This section is one of the most important foci of the entire business plan.

Box 6 describes how products are developed and priced by some actuaries using modelling techniques. The output of a modelling exercise is a series of prospective Balance Sheets, Profit & Loss, and Cash Flow Statements. These can be on a monthly, quarterly, or annual basis up to the end of the business plan term. In general, these financial projections are sensitive to changes in any of the assumptions – hence changing product features, premium rates, growth rates, expenses, interest rates, and others has a ripple effect on the series of prospective financial statements. Some of the inputs have to be accepted and cannot be changed since they are beyond the control of prospective program implementers (for example, future inflation rates) while others such as premium rate and benefits can be adjusted until the prospective financial statements look just right.

Using this approach, product pricing can be tweaked until the financial projections reflect the desired (and expected) outcome in terms of profit/surplus, growth in surplus, rates of return, and so on. Projection of key performance indicators such as solvency, liquidity, and some others, is an added advantage.

If a model or the available information for modelling is not available, financial projections can be suitably prepared in a spreadsheet program such as Excel. This is often the only possibility for some situations such as for a new health insurance program. The presentation in the business plan is then still the same– a series of prospective, albeit simplified, financial statements.

In summary, product pricing and preparation of financial projections is a joint exercise of all program partners. During this process, there are some very important constraints that must be incorporated. Typically, a framework of financial parameters such as in table 9 is worked out with all partners before or during the pricing and projection process.

Table 9: Sample of financial parameters in pricing / financial projections

Question	General guideline
How long after the launch date should a profit be realized? Alternatively, how many years can a program endure losses?	Possibilities include: <ul style="list-style-type: none">• A credit life program set up by an insurer and an MFI are typically profitable in the first year.• A composite product may see profits in 2–3 years.• A community-based health insurance program may not see a surplus for many years.
What rates of return should be aimed for in the long term?	<ul style="list-style-type: none">• A for-profit program should aim for competitive rates of return on invested capital.• A member-owned program should aim for similar or even higher rates of return as the surplus generated belongs to members and can be used to finance growth, new add-on services, improved benefits, and others. Care must be taken, however, not to be too profitable for too long because it raises the issue of intergenerational transfers between members.

Question	General guideline
What is the length of the period to use for targeted rates of return?	This depends on the situation. For new products or programs it should be a bit longer (5–7 years) since it may take a number of years to become profitable.
Can products cross-subsidize other products? To what degree?	Regulators usually frown on this. From the perspective of the program, cross-subsidies may be an important part of the marketing strategy.
Aside from legal capital requirements, how much capital should a microinsurer raise from investors or members?	With modelling techniques, this can be tested to some degree. Stress tests can be added to the financial projections, and the amount of capital that would prevent financial ruin can be estimated. This exercise should be incorporated with determining the appropriate amount of reinsurance to buy (self-insured programs).
How much margin for error should be built into the pricing? In other words, how conservative should the projections be?	Too much margin will make the products too expensive. Too little is risky. The amount of risk premium can be calculated using actuarial / statistical methods. One should also balance this with the fact that it is harder to RAISE premium rates than to LOWER them – i.e. raising rates some time after the launch makes selling difficult. Hence, there is a balance to achieve. The authors prefer to load product pricing so that there is at least 80% chance that rates will not have to be increased.
What type and how much reinsurance should be assumed for self-insured programs?	Depends on the program; see section 11.1. Reinsurance comes at a cost, but if used properly it lowers capital requirements.
If subsidies are available, should these be incorporated into the pricing and financial projections? For how long? Or, should these be ignored and seen as a fallback or bonus?	In the authors' opinion, the program should always prepare for the day when subsidies will disappear.
What should happen to the surplus in member-owned programs? ²²	This is a decision of program stakeholders but the actuary should ideally know the approach during the pricing and projection exercise.

²² It is better if reinsurance is negotiated before pricing the product.

8. Risk Assessment

A business plan should have a 'Risks and Mitigation' section which describes the main risks that could impede success, the probability that each risk will occur, and how the program will respond to any of the risks that would be realized.

Although many of the major risks that may impede success should have been discussed in the main sections of the business plan, it is prudent to include a section near the end which summarizes the main risks. Readers of the plan also expect the authors to venture a rough guess at the probability of each risk and to outline brief mitigation strategies for each risk.

For example, what if regulatory support for the project would wane? What if regulations would change? What if external financial assistance stops or decreases? While it is often difficult to predict these types of outcomes, the business plan reader would like to see these issues on the table and at least an educated guess with respect to the likelihood of their future occurrence and the probable responses.

Often, the remaining macro-level risks which have not been mentioned anywhere in the business plan will be included in this section. Often, though, there is not much to be discussed and analyzed. For example, what could be discussed about the possibility and the mitigation strategy in case of war?

9. Conclusion

In closing, preparing a good microinsurance plan can be a daunting task and a lot of work. It requires various types and degrees of technical capacity. Hence, a small team of people with complementary skills is often more effective for producing a quality plan. In all cases, the business planners should seek wide input from the main stakeholders.

Whether a business plan is very basic or comprehensive, the proponents will see things from a new perspective after completing this important exercise. This in itself mitigates some of the implementation and management risk of the microinsurance programme.

A business plan is not just essential for prospective donors or investors, but should also be regarded as a blueprint for success. By preparing it, the future of the microinsurance program has been planned in detail, and what remains is to see it to fruition. Most importantly, the business plan is a key tool for overall monitoring and a reference for management and stakeholders.

Appendix A – Glossary of Terms

37

For an extended list, please see the link to Microinsurance Network (MiN) website:
www.microinsurancenetwork.org/lexicon-overview

A	
Actuarial present value (APV)	In plain language, actuarial present value refers to the estimated current value of a monetary amount payable or receivable in the future. In calculating the current value, the actuary discounts the future amount to the present day by incorporating the time value of money (i.e. considering that investments earn interest, dividends, or appreciate in value) and the probabilities and timing of all events that determine whether or not the said amount will actually materialize.
Actuarial reserves	See reserves.
Actuary	A technical expert in insurance and applied mathematics, who applies theories of probability, economics, and finance to the business of insurance and is responsible for the calculation of premiums, reserves, and other valuations.
C	
Captive market	Captive markets are those where potential customers have limited number of suppliers to choose from. In microinsurance, for example, MFIs offer insurance to their clients but not give them a lot (or any) choice on type of products, insurance suppliers, or a non-participation option.
Claims incidence	For a sample of insureds for a particular period, it is the number of claims or claimants divided by the number of insureds. This is a statistic often used by actuaries as an estimate for the true underlying probability that an insured from the sample will make a claim.
Coinsurance	In the most general sense, coinsurance refers to the insured retaining a portion of the insured risk. It can take many forms, but usually it means that the insured will have to pay a portion of the incurred expense. For example, a ten percent coinsurance for a health insurance programme means that the programme will pay only ninety percent of the covered procedures, and the remaining ten percent will be left to the insured.
Commercial insurer	An insurance company engaged in the business of insurance for the purpose of making profits.
Co-payment	The percentage of an incurred cost that is paid by the insured (see also coinsurance and deductible). A co-payment could be either a deductible and / or coinsurance.
Covariant risks	Risks that effect many persons, households, or properties at the same time. Examples include earthquakes, drought, typhoons, etc. In contrast, idiosyncratic risks such as most accidents affect only a few at random and independently.
Coverage term	The length of time coverage is in effect before it must be renewed. This applies mainly to term products. Some types of insurances need not be renewed; these are generically called permanent insurance.
Capital and/or surplus requirements	The amount of assets required by a regulator or prudent person to transact insurance. This amount should ideally be calculated by an actuary, be based on the actual business currently in force, and consider the quality of assets.

E	
Exclusions	Provisions in an insurance contract under which claim for benefit may be denied.
L	
Loss rate	The amount of loss expected in a defined period. For example, if 3 deaths are expected annually for a group of 1000 insured persons, the loss rate is $3 / 1000 = 0.003$.
M	
Moral hazard	In insurance, moral hazard refers to the change in behavior of an insured in a way that raises costs for the insurer. This happens since the insured no longer bears the full costs as he would were he not insured. For example, a person with auto insurance may drive with less caution since she no longer will bear full cost of damages if she were involved in an accident.
Mutual schemes	An insurance scheme where the insured persons are also the owners of the scheme.
N	
Non-permanent subsidies	Pre-scheduled temporary subsidies, or any subsidies that are highly likely to stop at some future period.
P	
Participation rate	An alternative term used for coverage rate or penetration rate.
Partner/agent model	A method used by organizations to deliver insurance. The insurer maintains the risk and contracts with a partner or agent to deliver the product and or administrative services to the target market.
R	
Random event	An event that occurs purely by chance.
Reinsurance	Reinsurance is insurance for insurance companies. In practice, insurers usually cede (pass on) some of the risk that they have underwritten to other insurers or reinsurers in order to reduce their chance of insolvency in case of certain events or conditions.
Reserve	A fund or an accounting provision which is set aside to fund the future net liabilities of a microinsurance programme.
Risk exposure	The possibility of an insured being affected by the insured event over a specified period is called a unit of risk or a risk exposure.
Risk pool	From an insurer's perspective, a risk pool is a collection of sold insurance contracts with similar risk characteristics and grouped together as one financial account. It can also be used to describe a fund that has been set up between two or more insurers to co-share risk. At a community level, a risk pool is a fund to which several contribute regularly and seek compensation for certain types of losses- in other words, it is a self-insured program.

S	
Service provider	An organization that provides a service which could be administrative, data processing, claims management or any other function required to deliver insurance. They may be the insurer or another organization bearing no risk.
Stand-alone risk-bearing microinsurer	A microinsurer that retains all the insured risk.
T	
Term life	Life insurance for a specified period, usually a year.
Third party administrator (TPA)	A party outside the original contracting parties of the insured and the insurance companies that handles an administrative function. For example, in the case of health insurance, claims processing is commonly handled by a third party administrator (TPA).
U	
Underwriting	Once a product is marketed, the insurer's underwriter screens and selects only those insurance applicants for which the risk attributes fall within the range that the insurer has set for the particular risk pool.
W	
Waiting period	A period after insurance is bought during which certain types of claims are not permitted. For example, a microinsurance life product may not cover non-accidental deaths in the first six months after enrolment in order to control adverse selection; in this case there is no waiting period for accidental death benefits but there is a six-month waiting period for other types of death benefits. If the insured dies due to non-accidental death in the first six months, her beneficiaries are not entitled to any benefit.
Whole life	Life insurance under which coverage remains in force during the insured's entire lifetime, provided premiums are paid as specified in the policy.

Acronyms

GDP	gross domestic product
ILO	International Labour Organization
IT	information technology
KPI	key performance indicators
MI	microinsurance
MFI	microfinance institution
MIS	management information system
NGO	non-governmental organisations
SWOT	strengths, weaknesses, opportunities, threats
SHG	self-help group
TPA	third party administrator
USD	United States dollar
VMG	vision, mission, and goals
VND	Viet Nam dong
WHO	World Health Organization



As an international cooperation enterprise for sustainable development with worldwide operations, the federally owned Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH supports the German Government in achieving its development-policy objectives. It provides viable, forwardlooking solutions for political, economic, ecological and social development in a globalised world. Working under difficult conditions, GIZ promotes complex reforms and change processes. Its corporate objective is to improve people's living conditions on a sustainable basis.

Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH

Dag-Hammarskjöld-Weg 1-5
65760 Eschborn/Germany
T +49 (0) 6196 79-0
F +49 (0) 6196 79-1115
E info@giz.de
I www.giz.de