THE LANDSCAPE OF MICROINSURANCE IN LATIN AMERICA AND THE CARIBBEAN: A BRIEFING NOTE

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Background[1]

Over the past decade, it has been widely recognized that insurance provides the low-income population with important benefits which can help prevent individuals and families from falling back into extreme poverty when they are faced with a financial loss.

Much of our knowledge about microinsurance comes from case studies of countries or organizations. While these works can be informative on an entity level, they generate little information about the microinsurance industry as a whole. This makes it difficult to identify gaps in products or coverage as well as trends. Understanding trends can help various parties leverage their activities to address gaps, jump on positive changes, change plans related to areas that are not performing, and learn from trends that are linked to regulatory or macroeconomic factors. Traditional insurance markets in developed countries commonly track trends to generate key market information.

To date, there have only been two large regional quantitative macro-level landscape studies that identified microinsurance trends: the Landscape of Microinsurance in the World's 100 Poorest Countries (Roth, McCord, and Liber, 2007) and the Landscape of Microinsurance in Africa (Matul, McCord, Phily, and Harms, 2010). The current study is the first quantitative landscape study of Latin America and the Caribbean, although the 2007 landscape study included twelve countries in Latin America and the Caribbean.

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"Developing partnerships to insure the world's poor"

Defining Microinsurance

Despite widely recognized differences between microinsurance and traditional insurance, there is no single definition of microinsurance (Ingram and McCord, 2011). Different individuals, organizations, and regulatory bodies define microinsurance in a variety of ways. This makes quantifying microinsurance a rather challenging endeavor. Not only are there various definitions, but there is also a broad range of formal and informal organizations offering microinsurance, organizations which often do not segregate or specifically monitor their microinsurance data. For the purposes of this study, a product is generally defined as microinsurance if it appears to meet the following conditions:

- *Microinsurance is insurance that is modest in both coverage and premium levels based on the risks insured and meets the following characteristics:*
- *Target Population: the product is developed intentionally to serve the low-income population. Mass market products may be included if they meet this and the following criteria.*
- *Non-government risk carrier: the government must not be the risk carrier; social security programs, even if they target the low-income are not considered microinsurance.*
- *Goal of sustainability: the product must be working towards profitability or at least sustainability.*
- *Minimal Subsidies: the product must reflect no or at most minimal subsidies.*

As this definition excludes products that other studies, governments, or organizations may market as, or consider to be microinsurance, the numbers reported in this study may differ from the numbers of other reports. This is particularly important when considering property microinsurance, most notably agriculture, which frequently includes heavy government involvement or insurance products that are mainly used by the middle-income population, although the products may be financially accessible to the low-income population. Additionally, countries in Latin America, like Brazil, with a large and rapidly growing middle class, make very little distinction between mass market products for all, and microinsurance. Finding the definitional distinctions between mass and microinsurance for this study have proven challenging.

Methodology

In assessing the landscape of microinsurance in LAC, twenty[2] countries were researched in-depth due to their significance to microinsurance. Nine[3] of the twenty countries were visited by researchers; visits lasted a week on average. The researchers for this study aimed to include all organizations in the 20 countries offering products fitting the specified microinsurance definition. Identifying potential microinsurance providers was an ongoing activity, in many cases aided by communications with regulators, aggregators such as Asociacion de Aseguradores de Chile A. G., CNSeg in Brazil, FASECOLDA, FIDES and Planet Guarantee, as well as other insurers in the market.

The primary modes of data collection were surveys and interviews. The survey asked a variety of questions about the organization, the products, and the organization's thoughts on expansion factors and issues with the market and regulation. Key quantitative data requested included

[2] The 20 countries - Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, and Venezuela.

[3] The countries visited - Bolivia, Brazil, Colombia, Ecuador, El Salvador, Guatemala, Jamaica, Mexico, and Peru.

information on premiums received in 2010 and 2011, as well as lives and property covered at the end of each of those years.

A team of seven researchers conducted the interviews with potential microinsurance providers. Interviews served several purposes; they allowed researchers to build a relationship with the organizations, obtain answers or clarify survey questions, and establish a better understanding of the country's microinsurance market and stakeholders. The persons interviewed included the CEOs, general managers, or whoever was the most knowledgeable about the organization's microinsurance operations.

Challenges to data collection

There were several challenges to collecting data that readers should be aware of when reviewing this landscape study. All of the data collected was voluntarily submitted through the goodwill of the insurers, delivery channels, aggregators, regulators, donors, and / or other organizations involved with microinsurance. If an insurer refused to participate in the study, the researchers collected the product information from a delivery channel or aggregator where possible. When using aggregators, it was often not possible to determine the exact number of products or insurers or the exact coverage of the products, although coverage was specified to the greatest degree possible.

While most organizations were willing to provide data, the requested information was not always available since insurance accounting generally does not include a segregation of microinsurance data. Even when data is segregated, organizations do not always track their business in the same way (Koven and McCord, 2012). Researchers have contacted organizations to clarify information to the greatest degree possible when necessary. Double counting of microinsurance products was eliminated as much as possible. For situations in which surveys were received from an insurer and delivery channel partnering to offer a microinsurance product, product information was only kept from the insurer.

Another issue regards what organizations believe is “microinsurance”. Although the project applies a clear definition of microinsurance and a model for counting policyholders and covered lives, it is possible, indeed likely, that this definition will not correspond exactly to that used by an insuring entity or the government in a jurisdiction. Thus data generated may not comply exactly with the definition put forth.

With these considerations, it is important to recognize that the quantitative information included in this paper does not represent an absolute number of products, clients, or other data that is presented here. This paper reports what the team was able to identify as microinsurance. Although the data for this study is not an absolute measure of microinsurance in LAC, the data set is large enough to represent the “landscape” of microinsurance in, and provide an accurate picture of, the market and the direction of the market in Latin America and the Caribbean.

Findings

Current Lives Covered and Products

In Latin America and the Caribbean, the team identified microinsurance in nineteen[4] of the twenty countries researched in-depth covering a total of 44.9 million people and properties. Of those covered, over 55% or 25.1 million are covered in two countries, Mexico and Brazil. The five countries with the greatest number of insureds - Mexico, Brazil, Colombia, Peru, and Ecuador - account for just over 90% of all lives and property covered in Latin America and the Caribbean.

[4] No microinsurance was found in Costa Rica.

As seen in Figure 1, of the 44.9 million identified lives covered, 32.5 million, 71%, were covered for life (L) excluding credit life (CL). A little more than half of all insureds identified possess some type of accident (A) coverage totalling 23.9 million, 52%. Microinsurance products with credit life coverage, coverage for the repayment of a loan upon death, cover 15.8 million people, 34% of the total. Health (H) coverage follows behind credit life covering 10.2 million people, 22% of the total. Property (P) coverage is by far the least common microinsurance coverage reaching only 2.9 million people, 6% of the total.[5]

Figure 1: Lives Covered by Types of Covers

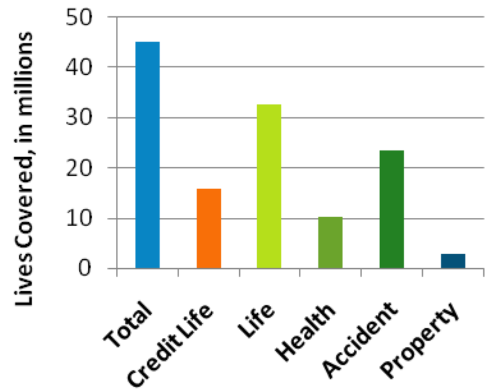
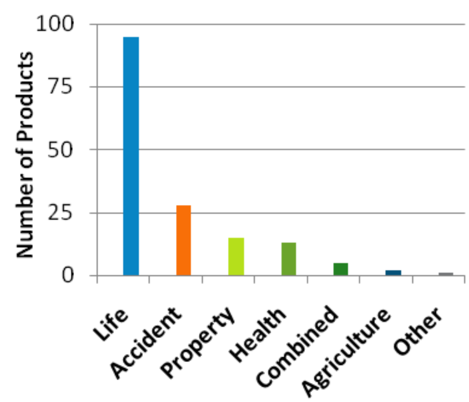


Figure 2 reports the number products researchers identified based on the product's main risk. 159 microinsurance products[6] currently being offered were identified, 95 report life as the main cover, 28 for accident, 15 for property, 13 for health, 5 combined products, 2 for agriculture, and 1 for which the cover is determined on a group by group basis. In comparing by risk type the number of insureds to the number of products, it is clear that the health and property schemes have a much smaller outreach on average than life and accident schemes.

Figure 2: Products Identified by Main Risk



The map on pages 6 and 7 displays the number of lives covered by microinsurance, in a country as well as the microinsurance coverage ratio of the country. The microinsurance coverage ratio is the percentage of the population covered by microinsurance. The graphs on these pages indicate those covered for the different risks - life, credit life, health, accident, and property - in each country.

Microinsurance Growth

When comparing this study's finding to the 2005 data collected from the 12 countries included in the Landscape of Microinsurance in the World's 100 Poorest Countries, it is clear that some countries have experienced significant growth. Table1 indicates the growth in the number of lives covered by country for the countries reporting lives covered by microinsurance in 2005.

[5] The total number of lives covered by microinsurance is not the sum of lives covered by the different product types. Consider a single product that offer credit life cover, funeral cover, and hospital cash; this covers the insured for credit life, life, and health. Thus if the subtotals were added to obtain the total those insured by the example product would be triple counted. This accounts for a considerable number of lives as nearly 70% of the product identified in this study provide some type of secondary cover.

[6] This number of products is a slight underestimate as some of the reported data was aggregated and did not specify the number of products included. For a discussion, see Challenges to data collection.

Table 1: Growth in lives covered

Country	Average Annual Growth, from 2005 to 2011
Venezuela	-13.94%
Panama	0.36%
Paraguay	3.91%
El Salvador	7.21%
Guatemala	23.33%
Bolivia	26.75%
Colombia	30.24%
Nicaragua	45.2%
Ecuador	54.04%
Total LAC	15.89%

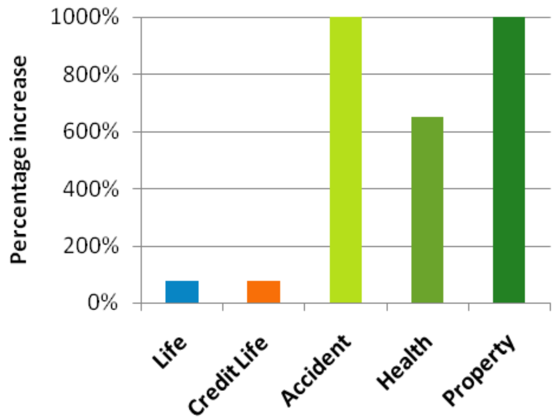
Other countries, including Belize, Haiti, Honduras, Dominican Republic, and Jamaica, reported no microinsurance in 2005 and thus contribute to the total increase in microinsurance in Latin America and the Caribbean.

Figure 3 shows that the increase in individuals covered was dramatic for personal accident, health, and property covers. Products such as health and property started from a lower base than life, but the increase suggests that microinsurance is evolving towards more demanded products. And although life and credit life increases were not as extreme as the other covers, they still almost doubled over the seven year period. In these countries researched in the Landscape of Microinsurance in the World's 100 Poorest Countries, the total number of insureds has grown 4.2 times since 2005.

Insurers

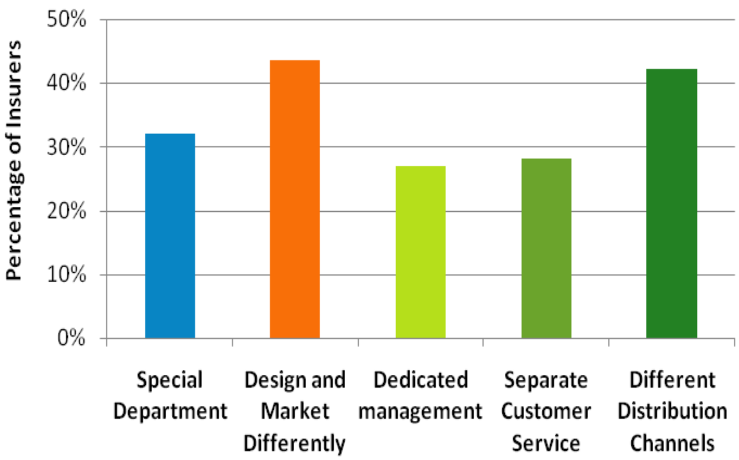
Within Latin America and the Caribbean, researchers collected data from nearly 100 organizations. The overwhelming majority, around 90%, of these identified organizations are formally regulated, commercial insurers. Latin America and the Caribbean's microinsurance landscape is characterized by a high concentration of regulated, commercial insurers who lead this market. The development of microinsurance has been substantially commercial sector driven with limited donor intervention and limited regulatory prompting. This differs from Africa and Asia, which have seen a much higher rate of involvement from donors and regulators in this sector.

Figure 3: Increase in individuals covered by coverage type, from 2005 to 2011



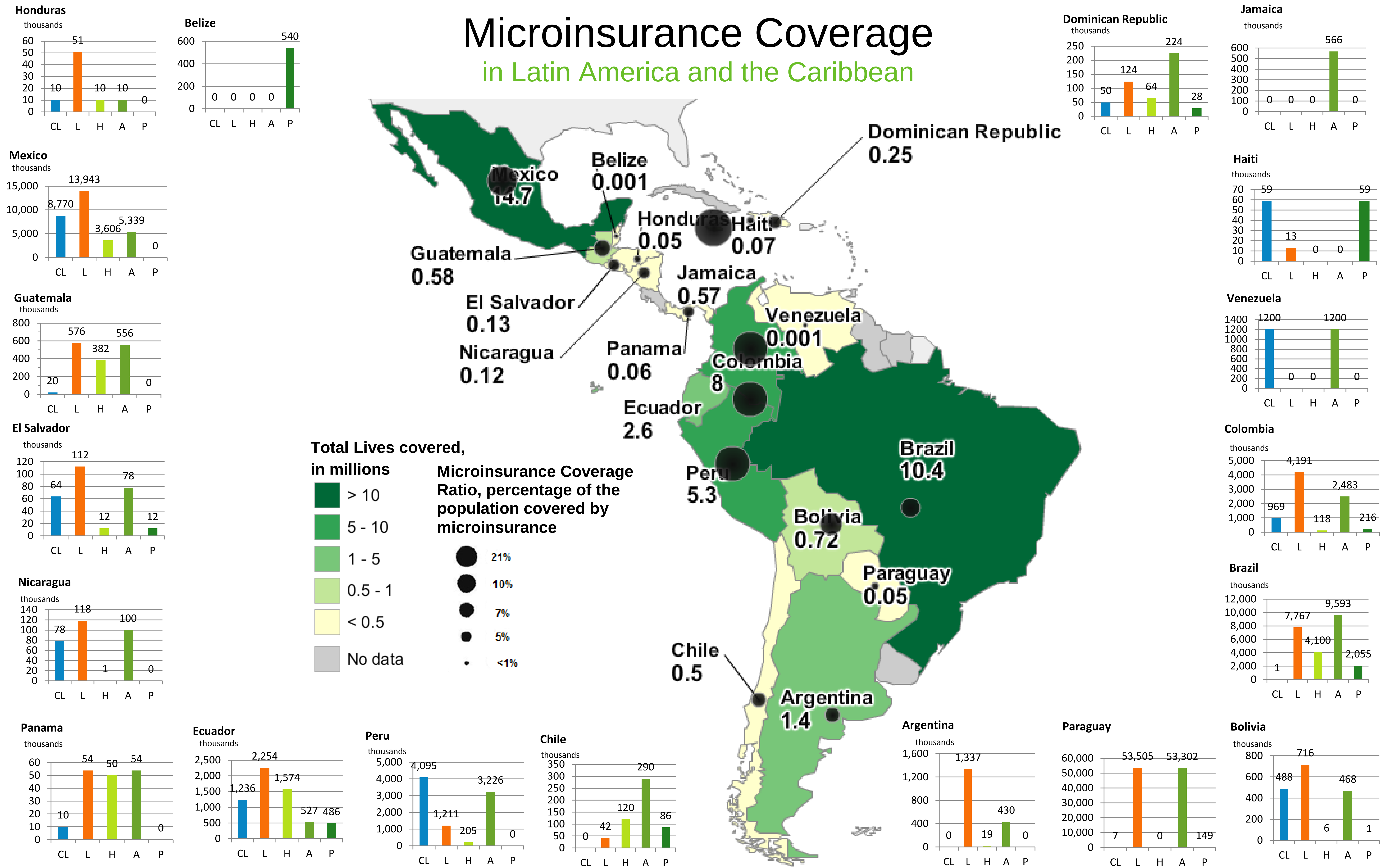
Microinsurance premiums also, on average, contribute a larger percentage of premiums to organizations than may be expected. The average contribution that microinsurance premiums make to an organization's total written premiums in the region is nearly 20%. This shows that microinsurance has clearly become an important component of insurance operations.

Figure 4: Approach Adjustments to Focus on Microinsurance



Microinsurance Coverage

in Latin America and the Caribbean

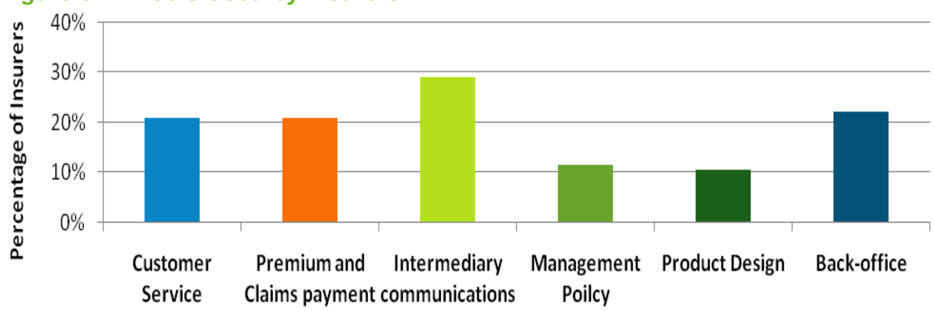


Although not all insurers receive a substantial amount of premiums from microinsurance, 66% of insurers reported that in some way they have altered their operational approach for their microinsurance activities. This suggests insurers recognize of the paradigm shift that must occur in order to generate effective microinsurance business. Implementing some of these changes provides an important platform for generating client value through better products and processes, and a better focus on potential institutional profitability.

Several organizations choose multiple approaches to provide specific allocated resources to microinsurance. Figure 6 indicates that the most common adjustments to microinsurance among insurers are designing and marketing the product differently from their traditional approaches and using different delivery channels. Globally, using alternative delivery channels is a common first step. Designing and marketing adjustments often come soon after resulting from the demands of the delivery channel.

More than two-thirds of microinsurance providers also indicated that they monitor the performance of their microinsurance products. Over half noted that they monitor performance through the use of financial indicators, and one-fourth noted using satisfaction surveys. Less than 10% of survey respondents specified that they use social performance indicators, impact studies, or other measures such as sales, marketing, and claims indicators.

Figure 5: IT Tools Used by Insurers



Nearly two-thirds of insurers also report using IT tools to facilitate insurance provision; however, a little less than one-fourth of insurers indicated that they had IT tools specifically for their microinsurance products. Despite minimal specialization of IT tools for microinsurance, the insurance providers that do possess IT tools for microinsurance apply them to a variety of key processes. Figure 5 illustrates the percentage of insurers that use microinsurance specific IT tools for certain tasks.

While only one-third of insurers report reinsuring their microinsurance activities, the organizations surveyed widely agree that there is not a lack of reinsurers in the microinsurance market. The small number of reinsured insurers is better explained by the types of microinsurance products offered than reinsurer involvement in microinsurance. As property products, particularly catastrophe, agriculture, and index, are offered by more organizations, the number of insurers requiring reinsurance is likely to increase.

Delivery Channels

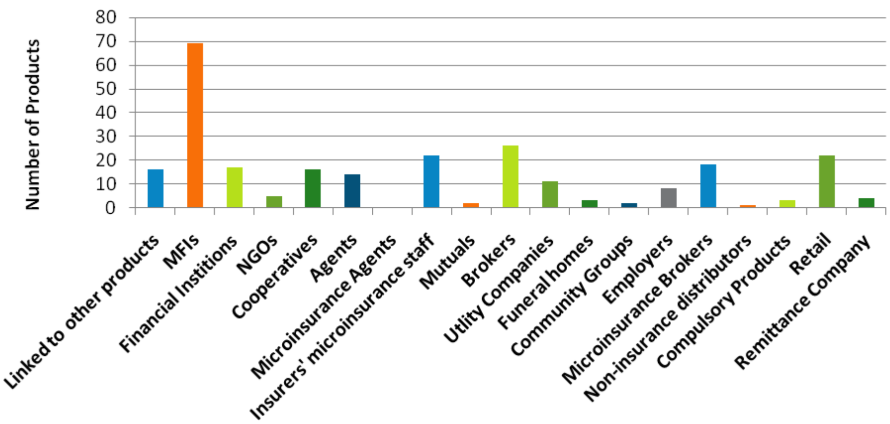
Microinsurance has typically been distributed through MFIs, and while MFIs still provide distribution channels to a majority of the microinsurance products in Latin America and the Caribbean, organizations are clearly extending their distribution network. For the 18 different delivery channels listed in the survey, each was reported to distribute at least one product.

However, the number of delivery channels used in each country and the average number of delivery channels used to distribute a microinsurance product widely varies. Mexico, Peru, and Colombia exhibited the greatest variety of delivery channels in the LAC region.

Table 2: Main Distribution Channels for Selected Countries

Country	Main Distribution Channels
Bolivia	Cooperatives, MFIs
Brazil	Retail, direct, agents, brokers
Colombia	Utility companies, MFIs, financial institutions, retailers, cell phones
Ecuador	MFIs, financial institutions, brokers
Guatemala	Financial institutions
Mexico	MFIs, retail linked, cooperatives
Peru	MFIs, cooperatives, brokers

Figure 6: Types of Delivery Channels

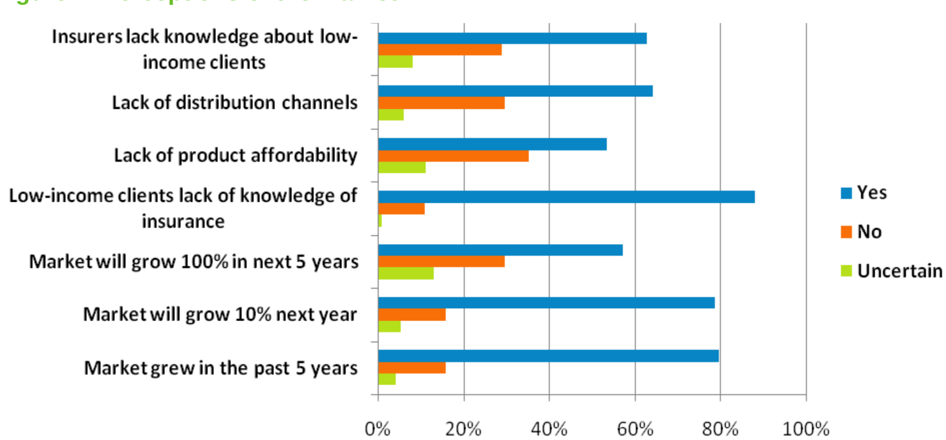


Regulation, Delivery Channels, and the Market

The youth of the microinsurance industry in LAC and the rest of the world generates great excitement about the high potential for growth but it also generates great uncertainty in how microinsurance should be approached by various stakeholders. For this study, survey respondents reported information on their perception of the microinsurance market as well as their view of the regulatory environment in their country. The responses received very much fit the attitude of excitement and apprehension characteristic of the microinsurance industry.

Figure 7 shows that across all countries, organizations were confident that they had and would experience growth; 79% of organizations agreed (38% strongly agreeing, 41% somewhat agreeing) that the market grew considerably over the past five years, and 79% agreed (51% strongly agreeing, 28% somewhat agreeing) that the market would grow 10% in the coming year. However, when asked about if the market would grow 100% in the coming 5 years, organizations were less confident; 57% said yes, 30% said no, and 30% were uncertain. Responses to some of the other survey questions shed some light upon why there is uncertainty. 63% of organizations agreed that there was a lack of knowledge about insurance needs of the low-income population, and an

Figure 7: Perceptions of the market



overwhelming 88% of organizations felt that potential low-income clients were ignorant about insurance. Additionally, a majority of organizations indicated there are a lack of affordability and a lack of distribution channels for microinsurance (54% and 64% respectively). If organizations cannot establish what products to develop or how the products must be structured to reach the low-income population, then yes, it may be a very unstable future for microinsurance.

Through interviews and comments survey respondents made, it is clear that the greatest concern of microinsurance providers is how to reach low-income clients with products suitable for their needs while keeping the process simple and inexpensive. In conjunction with this concern is the question of how to accomplish these goals within the regulatory framework of the country. In conducting this study, researchers observed concerns of distribution, simplicity, ease of administration, and affordability in all countries, and in many cases those concerns were linked to regulatory effects. Even in the three countries with specific microinsurance regulation (Peru, Mexico, and Brazil), respondents raised concerns about these issues.

Many microinsurance providers report feeling hindered in their microinsurance provision due to regulation restraints on potential delivery channels. One organization in Chile reported that "Current regulation makes it hard to develop innovative [delivery] channels that provide secure access to these [low-income] segments". A respondent in Peru indicated that excluding the option to provide insurance and collect premiums via mobile phones greatly limited the provider's distribution capabilities, especially in rural areas.

In a few countries, providers commented not only on the need to access more delivery channels, but also noted some challenges of working with delivery channels. Insurers in several countries noted that delivery channels charge insurance providers excessively high commissions in exchange for product distribution, but these high fees can drive product premiums out of an affordable range for the low-income population. Additionally, these fees seem to be based on no more than greed as delivery channels are not effectively costing their role in microinsurance delivery. Before establishing a new regulation in 2012, Panama's regulations restricted distribution channels to brokers who would then charge 20% to 30% commission and outlawed the use of alternate distribution channels such as MFIs and utility companies, which might be more reasonably priced.

Numerous respondents also referenced regulatory challenges for data that must be collected from or distributed to clients, which make products more complicated for the low-income clients and increase the amount of administration needed and thus increased the cost of the product to the providers. A respondent from Honduras reported that regulation requires that the insured receive documentation of the policy containing all general clauses, and the delivery of such a certificate causes much higher operating costs for the organization.

General models of microinsurance observed in LAC

Because of macroeconomic, commercial, and market issues, four general categories of models were identified in the region. The Frontier Market is one in which microinsurance is just starting or is about to start. The Credit Market led model is one in which microinsurance is driven by microfinance institutions offering products to their clients. The Mass Market model is one in which the country has a very rapid and robust middle class. In such a market the distinction between microinsurance and insurance is ambiguous as insurers simply push to prepare a market for greater insurance needs and service those needs. Finally, there is a group of countries that show characteristics of multiple models. This hybrid model represents countries that are both strong in microfinance and possess a rapidly growing middle class. Using these four models, and the characteristics of the microinsurance activities represented by them, the countries of the region are aligned as shown in Figure 8. This alignment into models helps not only in segmenting by category, but it also facilitates the consideration of gaps and potential remedies.

Figure 8: Countries Allocated to Market Models

Frontier Market (low/no access)	Credit Market-led Model (strong MFI sector)	Mass Market-led Model (retail, etc.)	Hybrid Model (combines mass market and credit led
Argentina Belize Costa Rica Jamaica Panama Paraguay	Bolivia Dominican Republic Ecuador El Salvador Guatemala Haiti Honduras Nicaragua Venezuela	Brazil Chile	Mexico Peru Colombia

Figure 9: Market Gaps Identified by Regional Model

Frontier Market (low/no access)	Credit Market-led Model (strong MFI sector)	Mass Market-led Model (retail, etc.)	Hybrid Model (combines mass market and credit led
Know-how Product development Actuarial analysis Voluntary sales Regulatory support Working with non-MFI channels where MFIs are few	Voluntary sales Back office and IT capacity (large countries/programs) Brokers and intermediaries (small countries) cost accounting and controls Health insurance Agricultural insurance Claims assessment technologies (property-agriculture) Consumer protection	Consumer protection Regulatory support Regulatory requirements-policy content Linkages with mission-led institutions Alternative delivery IT/Back office efficiencies and systems	Consumer protection Regulatory support Cost accounting and controls

Figure 9 provides examples of identified gaps within the various models based on the collected qualitative and quantitative data from the questionnaire, coupled with information from guided discussions with insurers and others within the countries surveyed.

Although all countries could benefit in some way from assistance with each of the gaps identified in the figure above, the gaps specifically noted within each model, if addressed, would have the greatest impact on the respective countries' microinsurance industries. Addressing these gaps is expected to dramatically expand access and use of microinsurance, as well as improve the value of products for the low income market and increase insurers' potential for profitability.

Addressing these gaps will require both public and private goods. Public goods are beneficial to the whole market, for example regulatory and consumer protection support. Private goods directly benefit one particular institution, for example cost accounting and controls and product development. A combination of these inputs will be necessary, but especially in the more countries with more advanced microinsurance markets, public goods may be the most effective general approach. These types of investments to assist in addressing the gaps should help increase the pace and quality of expansion.

Microinsurance in Latin America and the Caribbean varies in its development and maturity. The sector's growth in the region has been primarily in the absence of donors and regulatory inducements, which has given the region a much different character than Africa or Asia. Over the past five years, the region has seen significant maturing of the sector, resulting in a positive mix of broader outreach, a greater variety of distribution, and a movement towards products that likely offer greater value to the low-income market. These positive developments are likely to continue as more and more insurers achieve profitability in working with low-income markets and consider these as a part of their insurance strategies.

See our interactive map at:
http://www.microinsurancecentre.org/landscape-studies.html

The detailed Landscape of Microinsurance in LAC 2012 will soon be available at the link above and at http://microinsurance.fomin.org**!**

These two tools will bring the landscape study to life and will provide national level details to help readers maximize the value of the study.

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