

Technical Assistance Consultant's Report

Towards Inclusive Insurance in Thailand: An Analysis of the Market and Regulations



Kingdom of Thailand: TA7998 (THA) - Development of
a Strategic Framework for Financial Inclusion in
Thailand **(Financed by the Japan Fund for Poverty Reduction)**

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Prepared by Michael J. McCord and Clémence Tatin-Jaleran
MicroInsurance Centre, LLC
Appleton, USA

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CURRENCY EQUIVALENTS
(2012 Period Average)¹

Currency Unit – Thai Baht (THB)		
THB 1.00	=	USD 0.032
USD 1.00	=	THB 30.91

ABBREVIATIONS

A2II	Access to Insurance Initiative
AML	Anti-Money Laundering [Act]
ADB	Asian Development Bank
ART	Antiretroviral Therapy
ASEAN	Association of Southeast Asian Nations
ATM	Automated Teller Machine
B	Billion
BAAC	Bank for Agriculture and Agricultural Cooperatives
BFPF	Bureau of Financial Protection Policy
BKK	Bangkok
BOT	Bank of Thailand
CAT	Catastrophic Risk
CDD	Customer Due Diligence
CFT	Countering the Financing of Terrorism
CODI	Community Organizations Development Institute
CPD	Cooperative Promotion Department (Min. Agriculture & Coops)
CSMBS	Civil Servant Medical Benefit Scheme
CULT	Credit Union League of Thailand
EDI	Electronic Data Interchange
ETA	Electronic Transactions Act
FAA	Funeral Aid Associations
FGDs	Focus Group Discussions
FIBA	Financial Insurance Business Act
FPO	Fiscal Policy Office
GDP	Gross Domestic Product
GIA	General Insurance Association
Gov't	Government
GSB	Government Savings Bank
IAS	International Accounting Standard(s)
IAIS	International Association of Insurance Supervisors
ICPs	Insurance Core Principles of the IAIS
IDP	Insurance Development Plan
ILO	International Labour Organization
KPIs	Key Performance Indicators
KTB	Krung Thai Bank
LIH	Low Income Household(s)
LR	Loss Ratio
MCR	Minimum Capital Requirement
MF	Microfinance
MFIs	Microfinance Institutions
MI	Microinsurance
MinAg	Ministry of Agriculture

¹ As reported on <http://www.oanda.com/currency/converter/>

MM	Million
MoF	Ministry of Finance
MOI	Ministry of Interior
NBFI	Non-Bank Financial Institution
NCIF	National Catastrophe Insurance Fund
NGO	Non-Governmental Organization
NHSO	National Health Security Office
NSF	National Savings Fund
NSFI	National Strategy for Financial Inclusion
OIC	Office of the Insurance Commission
OOP	Out-Of-Pocket
PA	Personal Accident insurance
POS	(electronic) Points of Sale
PPP	Purchasing Power Parity
ROSCAs	Rotating Savings and Credit Associations
SCB	Siam Commercial Bank
SEC	Securities and Exchange Commission
SFIs	State Financial Institutions
SME Bank	Small and Medium Enterprise Development Bank
SPF	Social Protection Fund
SSO	Social Security Office
SSS	Social Security Scheme
SVT	Service Value Tax
THB	Thai Baht
TLAA	Thai Life Assurance Association
TMB	TMB (formerly Thai Military Bank)
UCS	Universal Cover Scheme
UNCDF	United Nations Capital Development Fund
USD	United States Dollar
VAT	Value Added Tax
VF	Village Fund
YRS	Years

Asian Development Bank Technical Assistance

TA 7998: Development of a Strategic Framework for Financial Inclusion

(Funded by the Government of Japan through the Japan Fund for Poverty Reduction (JFPR))

The Royal Thai Government (RTG) requested technical assistance from the Asian Development Bank (ADB) in 2010 to support the Government's initiative to promote financial inclusion in Thailand through a highly consultative process. Approved at the end of 2011 and initiated in early 2012, the process of developing a framework for financial inclusion began with a comprehensive diagnostic of the current state of financial inclusion in the country. The diagnostic was conducted through a collaborative effort with the United Nations Capital Development Fund (UNCDF) using its Making Access Possible (MAP) methodology to support expanding access to financial services for individuals and micro and small businesses. The first part of this diagnostic investigated supply-side and regulatory environment issues including the payments infrastructure. A qualitative and quantitative demand survey was conducted which provided valuable insights on access to finance and client behavior. Other parts of the assessment investigated fields including microinsurance, financial literacy and consumer protection. The final synthesis report brings together the assessment findings and provides key recommendations for going forward.

Reports in Thailand Financial Inclusion Series

1. Microfinance Supply Side Assessment Report
2. Microinsurance Assessment Report
3. Qualitative Demand-Side Research Report
4. Microfinance Regulation and Supervision Report
5. Financial Literacy Findings and Recommendations Report
6. Quantitative Demand Research Report – Finscope Thailand*
7. Consumer Protection Assessment Report
8. Full Diagnostic Synthesis Report

Reports are available at: <http://www.adb.org/projects/45128-001/documents>

*Finscope Thailand (funded by UNCDF) is available at:

<http://www.uncdf.org/sites/default/files/download/Thailand%20booklet%20final%2006%20August%202013.pdf>

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I. EXECUTIVE SUMMARY

Though more than 18 million people in Thailand have some sort of microinsurance coverage, there are still millions more with limited or no access to quality microinsurance products. Substantial work is still to be done in order to achieve an insurance culture and a truly vibrant microinsurance market in Thailand.

The Government of Thailand clearly supports the dramatic expansion of microinsurance throughout the Country. Efforts to expand the involvement of the commercial sector in terms of both risk takers and distribution channels while improving the infrastructure for microinsurance can help to improve the potential for achievement of the targets of the 2010-2014 Financial Sector Master Plan, as well as help to secure the future stability of millions of Thai households. This report has identified gaps, opportunities, and potential next steps regarding the supply, demand, and regulation of microinsurance in Thailand.

Microinsurance in Thailand has been defined through a framework developed by the Office of the Insurance Commission. This Microinsurance Framework, supported by a series of OIC Commissioner's Orders is designed to guide insurers in the development and offering of microinsurance and is a good first step in advancing inclusive insurance markets in Thailand. This effort emanates from the Financial Sector Master Plan for 2010 through 2014 which clearly promotes the development and implementation of microinsurance and sets rather aggressive penetration and density targets. Although it unlikely that these targets will be met, the efforts show a clear intention by government to promote the benefits of insurance among those that have had limited to no access to those products.

Thailand Context

Thailand's broader context offers some favorable factors, such as a stable macroeconomic environment over the last decade, a relative ease of doing business, and a high level of access to banking services. However, it also presents several challenges to microinsurance development, including high informal employment (62%), heavy dependence on agriculture, high inequality and a largely rural population.

Microinsurance Supply - Key Findings

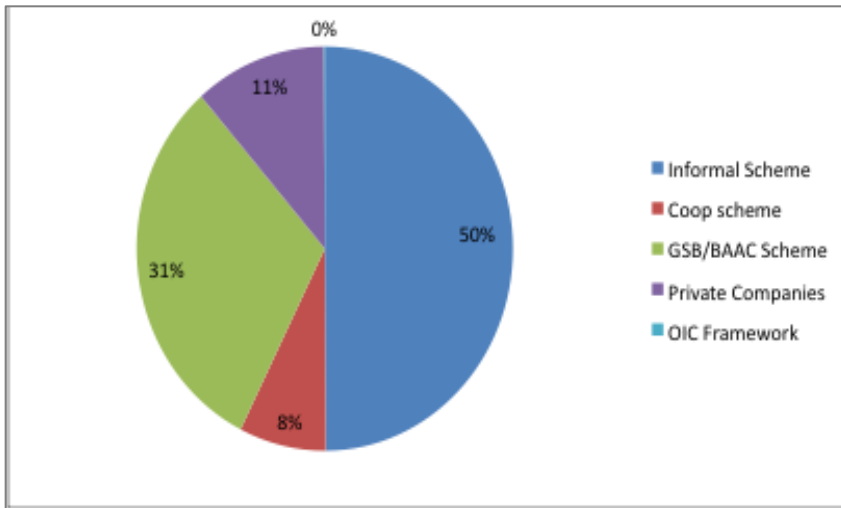
Thailand experiences a broad array of risk carriers including informal schemes (10.3 million policies); Cooperative schemes (1.4 million policies); State Financial Institutions (SFIs) (GSB and BAAC) have 4.7 million policies; and private companies cover at least 2.1 million policies.² Products that formally fall within the OIC Microinsurance Framework account for a mere 0.009 million policies. As at September 2012, the research team identified government public schemes as covering 45 million people with its various health insurance programs and 0.8 million with government welfare programs. The relatively new Microinsurance Framework remains nascent and with some clarifications and adjustments should result in a greater impact.

The proportion of microinsurance products offered by the private sector only accounts for 11.5% of insureds. **This represents a major imbalance between the public and private sector in general. However, this imbalance is focused on the UCS offered by the government.**

² This volume for private insurance companies is understood to be significantly understated as some insurance companies would not provide their volumes for this study. Efforts to obtain these values through other sources continue and should be provided in the next version of this paper.

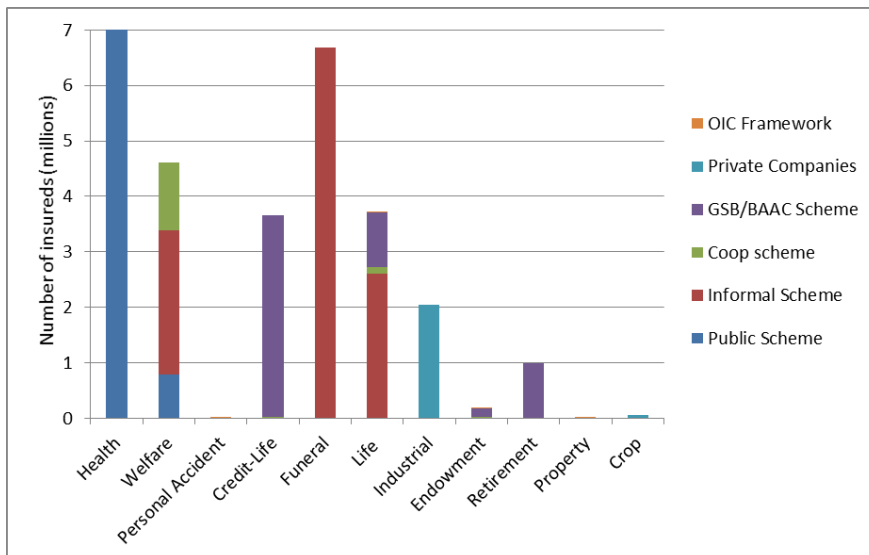
Outside of that coverage, government intervention is rather limited. Figure 1 below illustrates well the distribution of insured by risk carrier for all types of risks.

Figure 1 Proportion of insured by type of risk carrier (excluding gov't schemes)



In addition to an array of insurance providers, some people also benefit from a rather broad selection of products, including health, funeral, welfare, life, and credit life products, among others. Figure 2 provides a summary of products by volume of policies, offered by the various (non-social security) risk carriers. **Despite the seemingly high volume and variety of products available, the penetration figures remain very low with the exception of credit-life and industrial products.** Comparing the absolute figures with the potential target population numbers, we found that the penetration of the non-life products and longer-term products is almost negligible, and the proportion of insured covered by formal schemes is very limited.

Figure 2 Number of insured by risk carrier



In addition to the penetration of microinsurance products by risk type, one crucial element in this supply analysis is the eligible population and the limited actual access to the covers by the low-income population. Considering the urban-rural differences as well as the economic status of the target population, we have seen that the rural non-farmers do not have options to access any formal insurance products, the rural population in general, other than BAAC borrowers, has very limited access to formal insurance solutions, no asset insurance is available to the Thai low-income population, and the factory worker, the informal urban sector and the lower middle-class have very limited options in terms of life products and none in terms of long-term products (such as endowments).

In Thailand distribution occurs significantly through the SFIs, community-based organizations, banks, cooperatives and credit unions, as well as agents accredited for microinsurance sales through the Microinsurance Framework. The major retailer 7-Eleven has recently been granted approval to sell microinsurance through its 6,300 retail outlets. **Several other distribution channels with significant potential are yet untouched.** These could include: the Thai Post office Network, mobile network operators, additional retailers, unions, the government housing bank, non-bank financial institutions, non-government organizations, and even components of agricultural supply chains. Improvements in these areas could dramatically improve access to insurance products to the low income markets.

Microinsurance supply - the way forward

In order to address the weaknesses of the products and distribution channels currently offered to the low-income population, the Office of the Insurance Commissioner and the Ministry of Finance may join their efforts to improve products, increase access by low income and rural populations, and improve distribution efforts.

Distribution of microinsurance is one of the key determinants of expansion. A number of issues related to distribution channels can be addressed, including:

Enforce sanctions when agents do not respect their obligations/code of conduct and develop and implement a system of complaint notification and resolution that is appropriate for low income and rural people. This may help to reduce fraud and foster trust among the target population.

Revise the category of Micro-agents to result in effective promotion of microinsurance, as the status of 'micro-agent' has not promoted the distribution of microinsurance to date.

Explore broader options to provide access to appropriate products for the rural areas. In particular, the needs of non-farmers and non-BAAC clients who have no access to products should be addressed by exploring broader options in terms of distribution, such as retailers and other service providers who could act as agents, such as agriculture retail.

Facilitate flexible premium payment such as mobile transfer and use of other points of contact (such as retailers) would enable people in rural and remote areas to avoid any opportunity cost which may act as barriers to access to and renewal of policies.

Product improvements can increase the potential for massive scale of microinsurance in Thailand. **Most microinsurance products remain too complicated and inadequate for the low income population.** For example, research on the Universal Cover Scheme (UCS) can be conducted from a user's perspective in order to improve the services offered to the UCS

beneficiaries. Promote the development of simple, valuable, tailored products by the private sector, to be offered through the State Financial Institutions (SFIs) and Civil Service Organizations (CSOs) through capacity building of commercial and cooperative insurers, offering incentives to these entities to explore the low-income market.

Review policies for the provision of social support in order to ensure that government efforts reach the most vulnerable and poorest segment of the population while creating an enabling environment for the private sector to offer complementing covers to the population. The government may particularly look into risks and target groups which the private sector will not try to reach in the short and medium term. In particular, they can support the Art. 40's promotion and review the NCIF and Pension schemes, as they do not reach the low-income target population by design. There is also need to review the rural development policies to integrate insurance on a larger scale while providing other risk mitigation mechanisms (e.g. flood-proof infrastructure, training to farmers on preparedness).

Ensure that products currently offered through BAAC and GSB are actually accessible through the branches and staff of BAAC through increasing information at the branches, and training of staff.

Microinsurance demand - key findings

The perceived likelihood of occurrence and the currently-available coping mechanisms were the most important criteria when ranking the different risks faced by low-income Thais. **Risks that came up as the most important were those linked to income-generation, either impacting the ability of the breadwinner to work (accident, extended illness, job loss for semi-formal employee) or damage to vehicle/shop that would prevent people from working.** Despite indicating that death of a breadwinner would likely be difficult to cope with, groups did not typically rank death high on the list. Funerals, damage to property, old age, and livestock loss tended to rank low on the list.

Considering the differences in social ties and context, the coping strategies differ most by urban/rural setting. Rural respondents reported using mainly community-based coping strategies such as donations or loans from family and friends, as well as community funds such as the Welfare Funds and community banks. Drawing from savings (either from livestock sales or withdrawals from community savings funds) was also mentioned. Moneylenders are only used for large and pressing needs for which no other financing mechanisms were available, and formal insurance is rare, other than credit-life provided to farmers by BAAC. Rural participants rely on the government's 30-Bhat scheme for health coverage.

In urban areas, community groups are not as prevalent, and people are more likely to turn to loan sharks. There are few products tailored to low-income urban dwellers to take into account the seasonality of their ability to pay. Finally, urban participants indicated dissatisfaction with the 30-Bhat scheme for their health cover.

Most focus group participants are aware of insurance but have a lack of understanding of concepts such as premium and benefits and admitted that they need more information. Most people also have some brand awareness of the major insurance companies despite not having insurance themselves. **Participants generally have a negative perception of insurance, mainly due to knowledge of fraud experienced by others.** They also cited inappropriate premium amounts/inability to pay, exclusivity, complexity of documentation, and unfairness.

In rural areas, the need for land titles and a general lack of awareness prevents farmers from accessing BAAC's services. Community funds are unavailable in many locations, and where they do exist there is a lack of capacity to manage them and they are often vulnerable to covariate risk. **The provision of government and private insurance services is sub-optimal due to long distances to service points, the lack of systems/monitoring to prevent fraud by agents, and lack of outreach to generate awareness about available services.**

Microinsurance demand - the way forward

The Ministry of Finance and the Office of the Insurance Commissioner should undertake joint efforts around four main objectives in order meet and increase the demand for microinsurance products among the low income population.

Maximize current supply and distribution opportunities. This includes creating awareness among the low-income population of the government and BAAC schemes available to them, promoting the development of community banks and microfinance services in all provinces, and using the GSB, Islamic Bank and SME bank to develop and deliver products suitable to the middle class.

Increase distribution options and improve product adequacy. Risks for which demand has been identified include health, death (natural and accidental) and disability. Some of these are unaddressed by the current public schemes, and covers should be offered by public schemes to the poorest while the above the poverty line population should have access to privately-developed adequate covers (such as hospital cash or term-life covers). The OIC and MOF should consider modifying the regulation and product review process to ensure that adequate, simple products are offered, supporting insurers which have professional staff but need to be trained on microinsurance product development and best practices, and reviewing the rules on distribution channels to ensure that all suitable distribution channels are explored.

Review the regulation to ensure effective information. Specific initiatives might include coordinating the efforts of regulators who supervise various financial service providers under different jurisdictions, developing and enforcing regulation to prevent and control fraud in order to increase trust among the target population, and making information and complaints services available through an ombudsman and a free information line for all Thais.

Foster an insurance culture. This might take the form of incorporating financial education activities into the education system.

Microinsurance regulations - key findings

The objective of the findings regarding regulation is to inform efforts to **develop an inclusive insurance market in Thailand through regulation and supervision**, following the framework established by the International Association of Insurance Supervisors (IAIS) for understanding what constitutes an "inclusive" market and how it can be supported. **Inclusive insurance markets are "affordable; sustainable; convenient; and [with] responsible delivery by licensed and supervised insurers, and [a broad array of] intermediaries."** We summarize the current regulatory framework relevant to microinsurance in Thailand and analyze the implications of the current regulatory context for the development of inclusive microinsurance markets.

The Office of Insurance Commission (OIC) is the key regulatory and supervisory figure in the insurance market in Thailand. It is charged with enforcement of the insurance laws, and is working through its Insurance Development Plan Vol. 2 to 1) strengthen confidence and access to the insurance system, 2) strengthen the stability of the insurance system, 3) upgrade the quality of service and protection of policyholders' interests, and 4) promote the infrastructure of the insurance business.

Most of the relevant laws and regulations fall within the insurance regulatory framework, which consists of Life and Non-Life Insurance Acts and regulations promulgated thereunder (including a number of microinsurance-specific regulations). These laws govern the institutional form an insurer may take and set limits on foreign ownership of insurers. General corporate laws establish corporate governance requirements.

In many countries, as in Thailand, there is a significant paradigm shift that microinsurance stakeholders – regulators, supervisors, insurers, actuaries, intermediaries and others – must make to develop an enabling environment for the successful proliferation of microinsurance. This paradigm shift requires a significant rethinking of insurance and how to apply it to make it successful to the low-income market. At every step, policies, processes, product components, terms and procedures all need to be reevaluated for microinsurance, and the licensing and supervisory authorities should view microinsurance (and the rest of the insurance market) through the lens of proportionality.

Product-relevant regulations include those relevant to all insurance products as well as recently established microinsurance-specific requirements. Many of the latter are found in framework presentations and approved microinsurance policies, but have not been incorporated into specific regulations. As a result, **the standards for microinsurance products, while generally appropriate, would benefit from greater clarity and specificity in a number of areas.** In other areas, the products themselves and the policy documents are not sufficiently simple or otherwise inclusive for the low-income market. Relaxing the prohibition on compulsory bundling of insurance with loans and potentially other products could greatly expand opportunities for microinsurance market development. Creating a “fast track” approval process could also be effective in encouraging insurers to innovate and to design appropriate products for certain client sub-segments.

The prudential standards govern licensing of insurers, financial management, reporting, risk management, and solvency. None of these standards are microinsurance-specific. **While it is generally appropriate for microinsurance providers to be subject to stringent prudential standards as are traditional insurers, some relaxation of these standards may be appropriate to expand access, to the extent that microinsurance carries lower risk to the insurer than traditional insurance.** This flexibility allows for varying levels of capitalization which facilitates a path for informal insurers to formalize. The OIC should create a framework for managing the transition of the many informal insurance operations in Thailand into the formal space. Regardless of whether separate microinsurance licensing is implemented, all Companies offering microinsurance products should be subject to additional microinsurance reporting requirements.

Intermediation and sales of microinsurance can be conducted by traditional licensed agents and brokers, licensed microinsurance agents, insurers themselves, and unlicensed parties. **While the establishment of a special category of microinsurance agents is a promising step toward expanding outreach of microinsurance, further clarity and specificity in the regulations concerning microinsurance agents is needed,** including the training they are

required to undergo, any limitations on their role (in comparison to traditional agents), agent oversight, and the authority of agents in other areas such as premium collection and claims settlement.

Microinsurance expansion is almost completely reliant on distribution channels. As in Thailand, traditional agents are not interested selling microinsurance (at least not voluntarily on a one-to-one basis). Commissions on tiny premium leave little for them feed their families, while with their insurance agent's license they could be selling to the upper market and making significantly more money. This is likely part of the reason that there are hundreds of thousands of insurance agents in Thailand and less than one-thousand microinsurance agents, even though the potential market for microinsurance is likely more than ten times as much as the potential market for traditional insurance. Even many of the agents who have been registered as microinsurance agents are said to have done so simply as a step towards full agent status.

Many of the efforts to develop truly simple microinsurance products, as well as many of the efforts to reduce administrative costs, have an important impact on consumer protection. Regulation of consumer protection, in addition to the prudential and intermediation standards mentioned above, includes issues such as marketing, content and delivery of policy documentation, cancellation of the insurance contract by the client or insurer, claims, and complaints and dispute resolution. **Consumer protection measures in Thailand should pay closer attention to the needs and characteristics of microinsurance consumers, and the relative responsibilities of the insurer and policyholder should be more clearly articulated.**

Relevant ancillary regulations include the financial systems regulatory framework, which has implications for the role of financial institutions in intermediation and for insurance companies affiliated with banks. Regulation of electronic commerce permits insurance contracts (and other contracts) to be created by a data message, allowing a clear opportunity to use mobile technology to expand the outreach of microinsurance but possibly raising additional concerns related to the use of this technology. Thailand's anti-money laundering laws create reporting and identification requirements that may substantially increase transaction costs and exclude those who are unable to produce the required documentation.

Development of the Microinsurance Framework has been an important and positive step towards expanding microinsurance in Thailand. The microinsurance characteristics of simplicity and others as well as the quantitative cap on microinsurance provide general guidance to insurers in the microinsurance market. However, **in practice products are developed around the premium cap and do not generally reflect the fundamental issues of microinsurance simplicity.** Now it is time for the OIC, in conjunction with government policymakers, insurers and distribution channels to focus on implementing the true spirit of the framework.

Microinsurance regulation - the way forward

Take active steps to develop a microinsurance market. The insurance supervisor should play a lead role. While the MI Framework is a good first step, further specificity is needed and adaptations required to enhance appropriateness.

Adopt a policy on microinsurance as part of the broader goal of financial inclusion. General efforts to expanding microfinance, financial literacy and market education should include microinsurance, as should microfinance ombudsmen's' activities. Elimination of the prohibition on linking banking products to insurance products would significantly improve the

outreach of microinsurance, and expanding availability of distribution channels through reduced legal requirements may also improve the potential financial inclusion.

Define a microinsurance product category. The definition of microinsurance has not been incorporated explicitly into regulation. It is only incorporated through the Microinsurance Framework. The Framework definition is quite broad in some ways (i.e. low and middle income target population), which may distract from the objective of serving the low-income market; however, being broad and inclusive is positive. Maximum premium rates can be effective in defining microinsurance but should be different for different product types. Core components – simplicity, few exclusions, maximum premiums – are clear but are in the early stages of implementation, and many currently approved MI products have aspects that are not appropriate for inclusive insurance.

Tailor regulation to the risk character of the microinsurance product category. The framework guides the general characteristics of microinsurance reflecting the risk character of the microinsurance market. However, implementation still reflects the traditional insurance requirements and some level of traditional complexity. A significant dialog between insurers and the OIC should take place to work out the details of what it means to be a microinsurance product in Thailand.

Allow microinsurance underwriting by multiple entities. Different entities should be able to offer microinsurance products; however, they should do so under a consistent regulatory framework. Prohibition of foreign companies as insurers may be unduly restrictive, as multi-national insurers tend to be the most innovative and their experiences in other markets help them to adapt and apply lessons. The allowance of broad availability of microinsurer types should also extend to distribution channels.

Provide a path for formalization. There is no clear path to formality for current organizations providing MI (GSB, cooperatives) other than the outlined agent, broker, and insurer requirements. The OIC should assess the risk to having these entities operating outside any insurance regulatory / supervisory oversight. From there, if deemed necessary, such entities should gradually come under proportional regulatory oversight in a step-by-step manner.

Create a flexible regime for the distribution of microinsurance. Traditional agents are not interested in selling MI, as commissions are too low. Major new distribution channels are becoming operational for microinsurance including Counter Services (linked to 7-Elevens) and the Post Office (in process to become a microinsurance agent); however, the licensing process for acting as an agent or broker is onerous and time consuming. Restriction on bundling also significantly limit distribution options. One of the primary means of building an insurance culture in other jurisdictions is through bundled products. When people purchase one product there is a link to microinsurance. This helps expand risk pools, reduce premiums, and incentivize insurers as well as financial and consumer retailers.

Facilitate the active selling of microinsurance. The OIC and the Thai Government in general clearly desire insurance expansion. The conceptual framework is present, but greater efforts to really fulfill the characteristics of microinsurance are still needed. Additionally, examples like that of the Philippines should be considered in terms of active government facilitation of insurance inclusion.

Monitor market developments and respond with appropriate regulatory adjustments. Little is done at present to monitor the progress of microinsurance from either the demand or

supply side. Without understanding the market in a rather detailed manner, it will not be possible to effectively oversee the microinsurance aspects of the insurance market in Thailand. The OIC should identify a core group of key individuals to staff a microinsurance office within the OIC. This unit would be able to focus on the microinsurance issues while building internal capacity to effectively provide information and policy guidance for what will be (by number of clients) by far the largest part of the insurance market in Thailand. A regular set of reporting requirements for accessible insurance should be implemented in Thailand. The required data should directly enhance the knowledge of the OIC on microinsurance operations and results. Only necessary data should be required in proportion to the risk of the microinsurance market. Supervisors should be continuously aware that any additional requirements on insurers may add costs and time to the efforts of microinsurers. If these are too great, insurers will abandon microinsurance or not enter the market.

Use market capacity to support supervision in low-risk areas. Truly simple products offered to an educated market by agents who are responsible to an insurer that is accountable for all its microinsurance activity, offer limited room for disputes. Enforcing rules on insurers and providing effective market education, while pushing for extremely simple products in the product development process will help to limit the required inputs of the OIC in low risk areas. The addition of access to a proactive ombudsman should help to manage consumer protection. By creating the infrastructure for good microinsurance, supervision can be more effectively managed even in areas where the supervisor might be limited.

Innovation is crucial to promoting widespread, effective access to insurance, and the regulatory approach should enable innovation.

The framework is in place, yet there is still much work to be done to develop and offer good microinsurance products to massive numbers of people in Thailand.

II. THAILAND CONTEXT

Microinsurance market development is linked to contextual factors in the country in which it develops. This document considers economic, social, political, and financial elements in the Thai context and how they may impact the development of microinsurance in the country.

A. Economic Context

1. GDP

Thailand is the second largest economy in Southeast Asia after Indonesia³ in terms of Gross Domestic Product (GDP). GDP annual growth in Thailand averaged 4.4% for the first decade of the 2000s, with some slowdown towards the end due to the global economic crisis in 2008. However, the 2011 monsoon season caused severe flooding in the country and a drop in GDP annual growth to 0.1%⁴. Thailand has since recovered economically and is expected to show an increase to 5.0% growth for 2013⁵. As a country partially surrounded by the Andaman Sea and Gulf of Thailand, the Thai government has made water resource management a priority for 2013 and plans to use up to THB 350 billion (USD 11.2 billion) to fund these types of projects⁶. The main sectors of the economy are shown in Table 1.

Table 1 The main sectors of the economy as of 2011

Economic Sector	Share GDP (%)	Share of employment (%)
Manufacturing	39.0	13.6
Agriculture	8.6	38.2
Other Services	25.0	24.0
Wholesale and Retail Trade	13.5	15.5
Transport, Storage and Communication	9.6	2.6
Construction and Mining	4.3	6.1

2. Inflation

From 2000 until 2011, Thailand's inflation rate (Consumer Price Index) averaged 2.6% and the current inflation rate (2013) is 3.4% (See **Table 2** below). Although there has been an upward trend in the inflation since 2009, the current inflation rate is still relatively low. Also, given that most countries try to maintain an inflation rate between 1 - 3%, Thailand's present inflation rate is not far from the desired targets of many countries. Prices are not volatile and this is a good signal for the microinsurance market, as the value of premiums and benefit levels will affect both clients and insurance companies. Inflation rate affects the buying power and so in relation to microinsurance where low-income individuals have to buy premiums, these clients will not easily drop out of the market as a result of prices. On the business side, there are administrative costs and pricing decisions related to premiums and claim payments, all of which are sensitive to price signals in the economy.

³ World Bank. World Development Indicators Database. 2012.

⁴ Ibid.

⁵ World Bank. Thailand Overview. 2013. <http://www.worldbank.org/en/country/thailand/overview>

⁶ World Bank Office, Bangkok. Thailand Economic Monitor: December 2012. 2012.

Table 2 Macroeconomic Stability Indicators⁷

Macroeconomic stability indicators	2012				2012			2013
	Q1	Q2	Q3	Q4	Nov	Dec	Jan	
Headline inflation (% yoy)	3.0	3.4	2.5	2.9	3.2	2.7	3.6	3.4
Core inflation (% yoy)	2.1	2.7	2.0	1.8	2.1	1.9	1.8	1.6
Unemployment rate (% of total labor force)	0.7	0.7	0.9	0.6	0.5	0.4	0.5	n.a.
Public debt (%GDP)	44.0	41.5	43.5	43.9	44.0	43.8	44.0	n.a.

3. Thailand as an informal economy

An important aspect of the overall picture of the Thai economy is its heavy reliance on informal employment. According to a 2012 labor study conducted by the National Statistical Office of Thailand, over half of the population (62.6%) is engaged in informal employment. The sectors in which informally employed people work can be divided into three main groups: agriculture (62.5%), trade and service (28.3%), and manufacturing (9.2%). Compared to the sector breakdown of formal employment shown in Table 1 above, those employed in the informal sector are much more likely to work in agriculture. The highest rates of informal employment can be found in the Northeast (41.5%) and North (21.7%) regions of the country which creates an interesting correlation with poverty since these are also the poorest Thai regions⁸.

This majority informal employment economy could have negative implications for the sustainability of some of the Thai government's robust social welfare programs such as the Universal Coverage Scheme which covers many expensive medical procedures (see Section IV). This may be a window of opportunity for the private insurance sector to begin offering more microinsurance products, especially health products, to informal sector employees.

B. Political economy

1. Governmental Structure and Political Stability

Thailand, the only Southeast Asian country never to be colonized by a European power, is a constitutional monarchy made up of an executive, judicial, and legislative branch; of which the latter branch consists of a bicameral national assembly including the Senate (Wuthisapha) and House of Representatives (Sapha Phuthaen Ratsadon). Currently, the two executive branch leaders are King Phumiphon Adunyadet (Chief of State) and Prime Minister Yinglakh Chinnawat (Head of Government)⁹. Chinnawat became Thailand's first female Prime Minister in 2011. Thailand has had a history of political instability: since 1932, there have been 18 military coups in the country including one in 2006 which was followed by some political turmoil until the election of the current prime minister in 2011¹⁰.

The Thai government heavily subsidizes and invests high amounts of government spending into social welfare programs (see Section IV). Although licensing still remains a time-consuming task, there have been recent reforms that have improved regulatory efficiency and have made starting a business procedurally simple. Thailand boasts a low score of 18 on the "ease of doing

⁷Thailand Ministry of Finance. Monthly Economic Report. Feb. 2013. http://www2.mof.go.th/economic_report_detail.php?id=86

⁸ National Statistical Office, Ministry of Information and Communication Technology. The Informal Employment Survey. 2012. http://web.nso.go.th/en/survey/data_survey/550712_informal%20labor%202012.pdf

⁹ CIA. CIA World Factbook: Thailand Background. <https://www.cia.gov/library/publications/the-world-factbook/geos/th.html>

¹⁰ The Heritage Foundation. 2013 Index of Economic Freedom: Thailand. 2013. <http://www.heritage.org/index/country/thailand>

business” index¹¹ and time required to start a business is at 29 days for 2012¹². As seen in Table 3, these figures are relatively low in comparison to the rest of the Southeast Asian region, with the exception of Malaysia and Singapore. The Thai government is also in the process of preparing economically, socially, culturally, and politically for the arrival of the ASEAN community in 2015.

Table 3 Ease of doing business and time required to start a business in Southeast Asia by country, 2012

Southeast Asian Countries¹³	Ease of doing business index (score 1 – 185)	Number of days required to start a business
Brunei Darussalam	79	101
Cambodia	133	85
Indonesia	128	47
Lao People's Democratic Republic	163	92
Malaysia	12	6
Myanmar	n/a	n/a
Philippines	138	36
Singapore	1	3
Thailand	18	29
Timor-Leste	168 ¹⁴	103 ¹⁵
Viet Nam	99	34

C. Demographic and socioeconomic profile

1. Employment and Inequality

¹¹ Ease of doing business ranks economies from 1 to 185, with first place being the best. A high ranking (a low numerical rank) means that the regulatory environment is conducive to business operation. The index averages the country's percentile rankings on 10 topics covered in the World Bank's Doing Business. The ranking on each topic is the simple average of the percentile rankings on its component indicators.

¹² World Bank. World Development Indicators Database. 2012. <http://data.worldbank.org/data-catalog/world-development-indicators/wdi-2012>

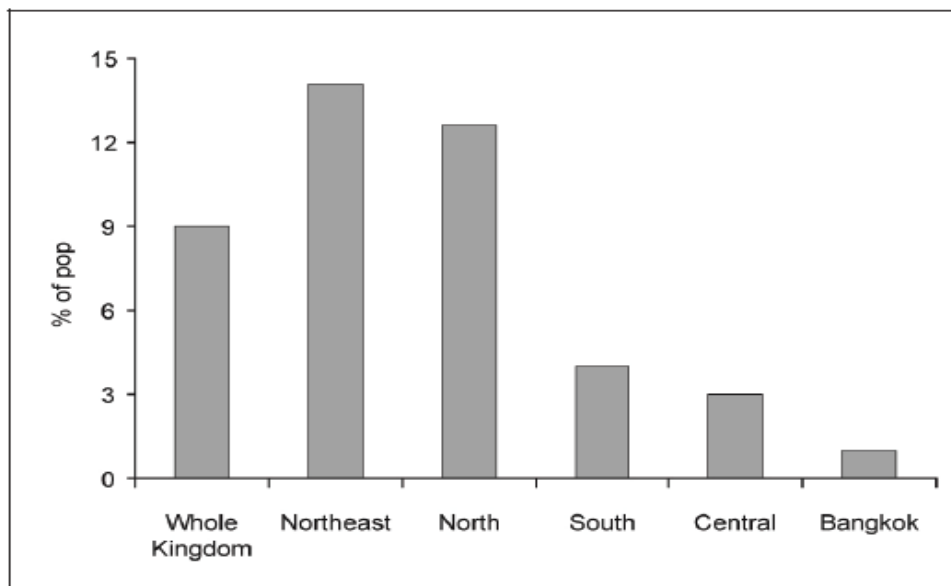
¹³ “South-Eastern Asia” defined according to United Nations “Geographical Region and Composition of Each Region”: <http://unstats.un.org/unsd/methods/m49/m49regin.htm>

¹⁴ 2011 index from Trading Economics: <http://www.tradingeconomics.com/timor-leste/ease-of-doing-business-index-1-most-business-friendly-regulations-wb-data.html>

¹⁵ 2011 index from Trading Economics: <http://www.tradingeconomics.com/timor-leste/time-required-to-start-a-business-days-wb-data.html>

Thailand is a country of 69.5 million people¹⁶ with over 70% of the population falling between the ages of 15 and 64¹⁷ (working age) and nearly 10% being age 65 and older¹⁸. As mentioned previously in Section I, Thailand is a majority informal economy with over 60% of the population

Figure 3 Poverty incidence by subnational region (% share of region's population)



Note: Poverty rates refer to persons above 15 years of age.
 Source: National Economic and Social Development Board (NESDB). 2008. Household Socio-Economic Survey 2008.

working in the informal sector. In July of 2011, Thailand moved from a “lower-middle income economy” to an “upper-middle income economy¹⁹.” Despite this positive “move up” in economic classification, there remains great inequality in the country, which has a GINI index of 40²⁰. The country has made great efforts and has succeeded in reducing poverty, but the North and Northeast regions are far behind the rest of the country in terms of poverty reduction (see **Figure 3**²¹).

Thailand’s poverty rate is relatively low at 7.8% for 2010²² and has decreased dramatically since 1990. However, this average does not clearly portray the regional differences in the economy. For example, incidences of poverty are unequally high in the North and Northeast regions of the country, the latter being the home of 40% of Thailand’s poor²³. One can note that although less than 8% of people live below the national poverty line, almost 50% of Thai live with less than

¹⁶ World Bank. World Development Indicators Database. 2012.

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ Gini index measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality. (World Bank Indicators)

²¹ Bird, Kelly, Kelly Hattel, Eiichi Sasaki, and Luxmon Attapich. Southeast Asia Working Paper Series: Poverty, Income Inequality, and Microfinance in Thailand. Manila: Asian Development Bank, 2011. <http://www.adb.org/sites/default/files/poverty-income-inequality-microfinance-thailand.pdf>

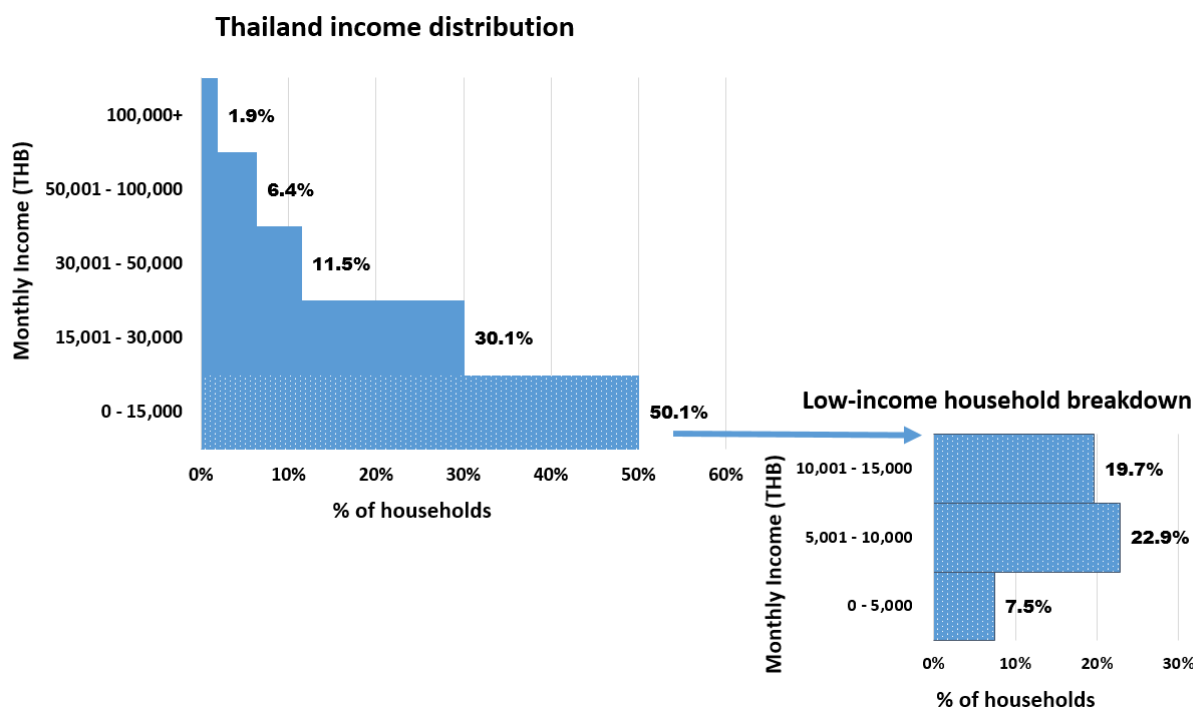
²² World Bank. World Development Indicators Database. 2012. <http://data.worldbank.org/data-catalog/world-development-indicators/wdi-2012>

²³ Bird, Kelly et al. Southeast Asia Working Paper Series: Poverty, Income Inequality, and Microfinance in Thailand. Manila: Asian Development Bank, 2011. <http://www.adb.org/sites/default/files/poverty-income-inequality-microfinance-thailand.pdf>

THB 155 (USD 5) PPP per day and that the rural-urban divide is important. The middle class includes varied profiles, from low-income workers and farmers to urban office, sales and trade employees.

As shown in **Figure 4**, half of Thai households earn less than THB 15,000 (USD 480) per month.

Figure 4 Household income distribution (2011)²⁴



In April of 2012, the Thai government raised minimum wages by 40% nation-wide. Although this increase did not cause unemployment to rise (the unemployment rate for 2012 is 0.7%²⁵), it did cause a spike in underemployment (number of workers who work less than 35 hours per week and seeking to work more) by 16.4% “year-on-year” in the third quarter of 2012²⁶. This could have implications on the private insurance sector if only full-time employees are provided with benefits of the government health schemes.

2. Agriculture and Rice

Thailand is a majority rural country with over 65% of the total population living in rural areas²⁷. What is more, 90% of low-income people live in rural areas²⁸. This will require innovation and creativity in microinsurance distribution and how to access clients in these rural areas. The country is also an export-driven economy with exports of goods and services constituting nearly

²⁴ Data from National Statistical Office. 2011. *The Household Socio-Economic Survey*. Table 4; graph by authors

²⁵ Thailand Ministry of Finance. Monthly Economic Report. Feb. 2013. http://www2.mof.go.th/economic_report_detail.php?id=86

²⁶ World Bank Office, Bangkok. Thailand Economic Monitor: December 2012. 2012. http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/01/08/000350881_20130108170508/Rendered/PDF/NonAsciiFileName0.pdf

²⁷ World Bank. World Development Indicators Database. 2012.

²⁸ Bird, Kelly et al. Southeast Asia Working Paper Series: Poverty, Income Inequality, and Microfinance in Thailand. Manila: Asian Development Bank, 2011. <http://www.adb.org/sites/default/files/poverty-income-inequality-microfinance-thailand.pdf>

77% of GDP²⁹. For the last three decades, Thailand has been the world's largest rice exporter. Rice is grown in two main cropping seasons in Thailand: the major crop (from May to October except in the 6 southern provinces where it is June to February) and the second crop of rice which is the irrigated rice that grows in the dry season (from November to April except in southern provinces where it is March to June)³⁰.

With regards to index-based microinsurance products, these cropping seasons will play a significant role in product design and distribution. It is common for farmers in all agricultural regions of Thailand to take out loans before they begin their farming activities. However, because of drought and other climate-related issues, these farmers often times are not able to pay back their loans.

3. Refugees and cultural issues

Thailand is home to nearly 85,000 registered refugees and an estimated 62,000 unregistered asylum-seekers from neighboring Myanmar (Burma)³¹. Many of the refugees from Myanmar reside in nine closed camps that are located along the western border of Thailand.

As of the end of 2010, there were an estimated 2.5 million migrants living and working in Thailand from Lao PDR, Cambodia, and Myanmar³². A majority of these workers were unregistered, others went through the NV (nationality verification) process, and the smallest percentage of these migrants entered under MOU (Memoranda of Understanding – an agreement between Thailand and neighboring Cambodia, Lao PDR, and Myanmar)³³.

D. Penetration of social welfare

In general, Thailand has a large set of government programs that are aimed at reducing poverty and there is little private sector participation.

1. Public Healthcare Schemes in Thailand

The Thai government offers three main public health insurance programs to its citizens: Social Security Scheme (SSS), Civil Servant Medical Benefit Scheme (CSMBS), and Universal Coverage Scheme (UCS)³⁴. The SSS offers health coverage to formal sector private employees (but not their dependents) of institutions with more than 10 workers, and is financed jointly by a payroll tax and a government subsidy. The CSMBS program is meant for government employees (current and retired civil servants and their dependents) and is financed by a general tax. In order to reach the informal sector and those not covered by the two previous programs, the Thai government implemented the UCS in 2002 which covered about 70% of the Thai population once it was rolled out. The UCS offers comprehensive healthcare as well as coverage for a number of expensive surgical procedures, and in 2008, due to high demand and pressure from the Thai people, the Ministry of Health decided to include renal replacement

²⁹ World Bank. World Development Indicators Database. 2012.

³⁰ Boonjit Titapiwatanakun and Boosaree Titapiwatanakun. The Rice Situation in Thailand. Bangkok: Asian Development Bank, 2012. <http://www2.adb.org/Documents/Reports/Consultant/REG/43430/43430-012-reg-tacr-03.pdf>

³¹ UNHCR. 2013 UNHCR country operations profile: Thailand. 2013. <http://www.unhcr.org/cgi-bin/texis/vtx/page?page=49e489646>

³² Huguet, Jerrold W. and Aphichat Chamrathirong (eds.). Thailand Migration Report 2011. Bangkok: International Organization for Migration – Thailand Office. 2011. <http://www.un.or.th/documents/tmr-2011.pdf>

³³ Ibid

³⁴ Wagstaff, Adam and Wanwiphang Manachotphong. Universal Health Care and Informal Labor Markets: The Case of Thailand. The World Bank Development Research Group, 2012. http://www-wds.worldbank.org/servlet/WDSContentServer/WDS/IB/2012/07/02/000158349_20120702144251/Rendered/PDF/WPS6116.pdf

therapy as part of the scheme's benefits³⁵. This scheme does not require a joining fee and has minimal copayments³⁶.

Thailand's effort to improve low-income people's access to healthcare through the UCS has attracted great international attention and has and is being used as a model for other countries' universal healthcare plans. However, like any program, it is not without its faults. Geographically, the program's distribution of health workers and resources has not been equal³⁷. Also, its benefits differ from those of the CSMBS and SSS in significant ways. For example, the CSMBS has four times more funding per patient for elderly care than the UCS. This may be an opportunity for microinsurance health schemes and pension plans to fill this gap, especially in more remote areas that are not well staffed by the UCS.

What is more, the program may actually be incentivizing Thais to either remain in or join the informal sector. According to a 2012 study conducted by the Development Research Group of the World Bank³⁸, the UCS "has encouraged couples to work in the informal sector in a rural setting rather than live in the city and rely on earnings from a single breadwinner's formal-sector job." Additionally, there is concern about sustainability in the long-term due to the recent increase of government spending on healthcare because of an aging population and an increase in chronic diseases³⁹.

2. The BAAC and Paddy Pledging Program

The Bank of Agriculture and Agriculture Co-operatives (BAAC) is a government organization that focuses on rural development and assistance for farmers. The BAAC offers a number of financial services to low-income farmers. The BAAC is one of the key government institutions that implemented Paddy Pledging Program in which the Thai government pays farmers an "above market" price for their un-milled rice. This program is meant to boost agricultural development⁴⁰. The program mainly benefitted farmers, rice millers, and rice traders that chose to participate while independent rice millers were impacted negatively by the higher-than-market pledged price⁴¹.

E. Community structure, support, and social cohesion

1. Cooperatives in Thailand

Thailand has a robust cooperative presence and culture with over 10,800,000 people as members of the 7,018 cooperatives registered in the country for 2012⁴². As seen in **Table 4**, 56% of the cooperatives in the country are in the agricultural sector. In adherence to the

³⁵ WHO. Thailand: health care for all, at a price. Bulletin of the World Health Organization 88.2 (2010): 81-160.

<http://www.who.int/bulletin/volumes/88/2/10-010210/en/>

³⁶ Wagstaff, Adam and Wanwiphang Manachotphong. Universal Health Care and Informal Labor Markets: The Case of Thailand. The World Bank Development Research Group, 2012. http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2012/07/02/000158349_20120702144251/Rendered/PDF/WPS6116.pdf

³⁷ World Bank. Thailand: Sustaining Health Protection for All. 2012. <http://www.worldbank.org/en/news/feature/2012/08/20/thailand-sustaining-health-protection-for-all>

³⁸ Wagstaff, Adam and Wanwiphang Manachotphong. Universal Health Care and Informal Labor Markets: The Case of Thailand. The World Bank Development Research Group, 2012. http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2012/07/02/000158349_20120702144251/Rendered/PDF/WPS6116.pdf

³⁹ World Bank. Thailand: Sustaining Health Protection for All. 2012. <http://www.worldbank.org/en/news/feature/2012/08/20/thailand-sustaining-health-protection-for-all>

⁴⁰ Boonjit Titapiwatanakun and Boosaree Titapiwatanakun. The Rice Situation in Thailand. Bangkok: Asian Development Bank, 2012. <http://www2.adb.org/Documents/Reports/Consultant/REG/43430/43430-012-reg-tacr-03.pdf>

⁴¹ Ibid

⁴² ASEAN Centre for the Development of Agricultural Cooperatives. http://www.cpd.go.th/cpd/acedac_th/table3.html

Cooperatives Act, cooperatives in Thailand are not allowed to lend to non-members which creates a situation in which some cooperatives are left with large amounts of capital and others cannot keep up with the needs of their members⁴³.

Table 4 Total number of cooperatives classified by type, 2012 (B.E. 2555)

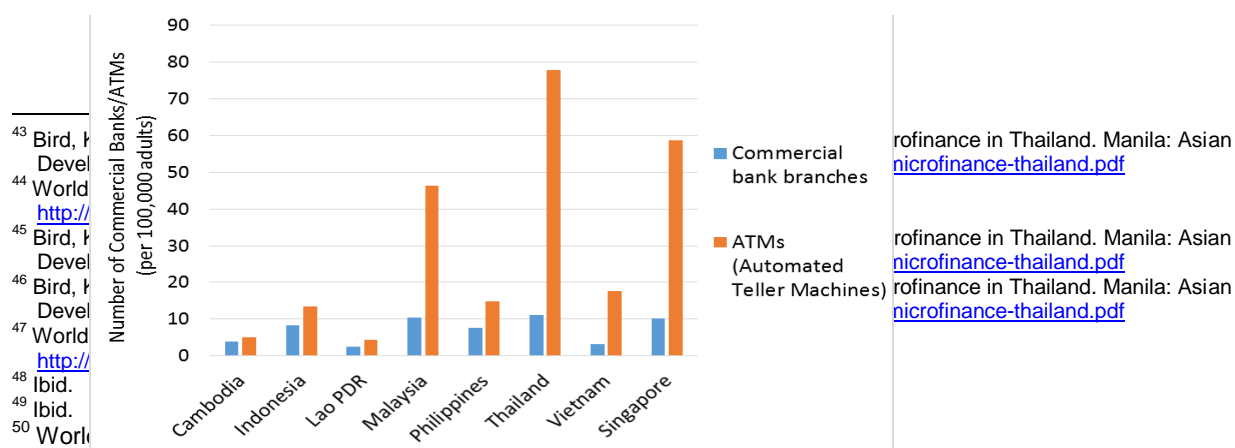
Type of Co-operatives	Number of Coops	Proportion of Coops (%)	Number of Members
Co-operatives in agricultural sector	3,943	56.18	6,430,608
Agricultural co-operatives	3,768	53.69	6,224,230
Fisheries co-operatives	83	1.18	15,420
Land settlement co-operatives	92	1.31	190,958
Co-operatives in non-agricultural sector	3,075	43.82	4,396,882
Thrift and credit co-operatives	1,383	19.71	2,640,664
Consumer co-operatives	190	2.71	793,304
Service co-operatives	1,036	14.76	377,307
Credit union co-operatives	466	6.64	585,607
Total	7,018	100.00	10,827,490

F. Broader financial sector

1. Access to Banking in Thailand

With 73% of the adult population having an account at a formal financial institution (70% in rural areas)⁴⁴ and 91% of households having access to at least one type of financial service⁴⁵, it appears there is high access to financial services in Thailand. However, the range and quality of financial services is limited when it comes to low-income families⁴⁶. When focusing only on the bottom 40% of the population in terms of income, the number of adults having an account drops to 61%⁴⁷. In terms of account activity, of these bottom 40%, nearly 12% do not deposit nor withdraw any money in a typical month⁴⁸. Regarding debit and credit services, 43% of the population uses a debit card while only 5% uses a credit card⁴⁹. With regards to physical access to banking services, there are about 11 commercial bank branches and around 78 ATMs per 100,000 adults⁵⁰, making Thailand a regional leader in physical access to banking services (see

Figure 5 Number of commercial banks and ATMs per 100,000 adults



⁴³ Bird, K
⁴⁴ Devel
⁴⁵ World
⁴⁶ Bird, K
⁴⁷ Devel
⁴⁸ Bird, K
⁴⁹ Devel
⁵⁰ World

rofinance in Thailand. Manila: Asian
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Figure 5⁵¹).

2. Microfinance in Thailand

The microfinance sector in Thailand is somewhat small and undeveloped and is mostly characterized of government-subsidized credit programs⁵². Because of this, there has been little development in the private sector and non-state providers cannot compete on cost at present⁵³. In addition, there currently exists no legal entity for MFIs and the Bank of Thailand (BOT) has no capacity to regulate microfinance institutions (MFIs). Regulation is limited to commercial banks and specialized financial institutions and with a minimum capital requirement of THB 50 million (USD 1.6 million), most microfinance providers cannot enter into the market⁵⁴. At present, the Ministry of Finance regulates the main microfinance providers in the country including the Government Savings Bank (GSB) and Bank of Agriculture and Agriculture Cooperatives (BAAC), which are state-run organizations. The GSB currently has three main programs which are: School Bank Project, Community Bank Project, and the Community Learning Center⁵⁵. BAAC offers a number of different deposit, credit, and international business services⁵⁶. The BOT has encouraged commercial banks to expand into the microfinance field, but this process has been slow and their microfinance portfolios still remain low⁵⁷.

The “Thailand Village Fund” is the second largest microcredit scheme in the world and is completely funded by the Thai government. The loans are distributed by nearly 80,000 local village fund committees throughout Thailand. However, according to a 2012 study, “*Appraising the Thailand Village Fund*”⁵⁸, these village funds are more social rather than financial intermediaries and lack incentive for innovation and risk-taking. This could be a possible gateway for microinsurance intermediaries to come in and offer innovative ideas on how these village funds can be a delivery channel and offer higher quality credit with linkages to insurance.

3. Payment Systems

Mobile banking is in the nascent stages in Thailand in comparison to its regional emerging market counterparts, most notably the Philippines⁵⁹. In 2011, Thailand registered 78.7 million cell phone subscriptions⁶⁰ - this number exceeds the total population by nearly 10 million. Less than 2% of the population using mobile phones to receive money in 2011. At the end of December 2012, there were 864,000 active mobile banking contracts averaging 3.4 million

⁵¹ Myanmar, Brunei, and Timor-Leste do not have data for these indicators

⁵² Bird, Kelly et al. Southeast Asia Working Paper Series: Poverty, Income Inequality, and Microfinance in Thailand. Manila: Asian Development Bank, 2011. <http://www.adb.org/sites/default/files/poverty-income-inequality-microfinance-thailand.pdf>

⁵³ Economist Intelligence Unit. Global Microscope on the microfinance business environment 2012. The Economist Intelligence Unit 2012. http://www.eiu.com/Handlers/WhitepaperHandler.ashx?fi=EIU_MICROFINANCE_2012_WEB_1.pdf&mode=wp&campaignid=micoscope2012 accessed Feb 25, 2013.

⁵⁴ Bird, Kelly et al. Southeast Asia Working Paper Series: Poverty, Income Inequality, and Microfinance in Thailand. Manila: Asian Development Bank, 2011. <http://www.adb.org/sites/default/files/poverty-income-inequality-microfinance-thailand.pdf>

⁵⁵ GSB. Societies and Communities. 2013. <http://www.gsb.or.th/society/index.php>

⁵⁶ BAAC. Product and Service. 2013. http://www.baac.or.th/baac_en/content-product.php

⁵⁷ Economist Intelligence Unit. Global Microscope on the microfinance business environment 2012. The Economist Intelligence Unit 2012. http://www.eiu.com/Handlers/WhitepaperHandler.ashx?fi=EIU_MICROFINANCE_2012_WEB_1.pdf&mode=wp&campaignid=micoscope2012 accessed Feb 25, 2013.

⁵⁸ Boonperm, Jirawan, Jonathan Haughton, Shahidur R. Khandker, Pungpond Rukumnuaykit. Appraising the Thailand Village Fund. World Bank Development Research Group, 2012. <http://elibrary.worldbank.org/content/workingpaper/10.1596/1813-9450-5998>

⁵⁹ Bird, Kelly et al. Southeast Asia Working Paper Series: Poverty, Income Inequality, and Microfinance in Thailand. Manila: Asian Development Bank, 2011. <http://www.adb.org/sites/default/files/poverty-income-inequality-microfinance-thailand.pdf>

⁶⁰ World Bank. World Development Indicators Database. 2012. <http://data.worldbank.org/data-catalog/world-development-indicators/wdi-2012>

transactions per month amounting to an average of THB 43.5 billion in value for the second half of 2012⁶¹.

4. Insurance

At present, there are 18 life insurance companies and 41 non-life insurance companies registered with the Office of Insurance Commission (OIC)⁶². In comparison to the size of the Thai economy, the insurance industry is still in the early stages with a penetration rate (percentage of population with insurance) of only 4.07% in 2009⁶³. Aware of this room for growth and need for improvement, the OIC created the *Insurance Development Plan, Volume 2* in which current gaps in the Thai insurance market are identified and the vision and goals for the future (by 2014) are laid out. One of the goals is to create better insurance access for the Thai people and subsequently a 20% growth rate in microinsurance products from 2010⁶⁴. Additionally, it has been recognized that there is a need for regulatory framework that supports and enables this sector to grow⁶⁵. Currently, few microinsurance products are being offered in the country. In 2010, Sampo Japan launched a weather index product through the BAAC to farmers in the Khon Kaen province⁶⁶ and more recently there have been microinsurance activities in partnership with the 7-Eleven retail chain⁶⁷.

G. Conclusions

Thailand boasts one of the largest economies in Southeast Asia, a low poverty rate, and has recently moved in classification from a lower-middle income to an upper-middle income country. However, inequality remains an issue within the country, most notably in the North and Northeast regions which are still exhibiting much higher rates of poverty comparatively. Microinsurance is an important tool for poverty eradication and can be a solution and new angle that can be taken in the country. Thailand is characterized by a majority informal economy and majority rural population. Although the government provides services to the informal sector and low-income populations with its large social welfare programs, these public resources are not always equally allocated and sustainability as well as service quality are other important issues to consider.

Doing business seems to be relatively easy due to regulatory reforms in the country. In addition, access to banking appears to be high. However, mobile banking is only in the nascent stages. This will be an important area to focus on in order to grow the microinsurance sector in the country and provide a platform for client access. Additionally, the microfinance sector is highly underdeveloped and mainly government-led with little private sector involvement at present. Nonetheless, it is clear that the OIC views microinsurance as a valuable tool for development in Thailand and supports and hopes to promote great growth in the sector.

⁶¹ Bank of Thailand. Statistics. 2012. <http://www2.bot.or.th/statistics/BOTWEBSTAT.aspx?reportID=688&language=ENG>

⁶² Office of Insurance Commission. Insurance companies. 2013. <http://www.oic.or.th/en/search/companies.php>

⁶³ Office of Insurance Commission. Summary of Insurance Development Plan, Vol. 2 (2010-2014). <http://www.oic.or.th/en/about/files/mp2/mp2eng.pdf>

⁶⁴ Office of Insurance Commission. Summary of Insurance Development Plan, Vol. 2 (2010-2014). <http://www.oic.or.th/en/about/files/mp2/mp2eng.pdf>

⁶⁵ Bird, Kelly et al. Southeast Asia Working Paper Series: Poverty, Income Inequality, and Microfinance in Thailand. Manila: Asian Development Bank, 2011. <http://www.adb.org/sites/default/files/poverty-income-inequality-microfinance-thailand.pdf>

⁶⁶ Sampo Japan Insurance Co. Weather Index Insurance Launched for Drought Risk in Northeast Thailand - Provision of adaptation measure for climate change utilizing insurance. 2010.

⁶⁷ Chanchokpong, Nuttaporn. Micro insurance now sold at 7-Eleven. Bangkok: Thai Financial Post, 2013. <http://thaifinancialpost.com/2013/02/14/micro-insurance-now-sold-at-7-eleven/>

III. MICROINSURANCE SUPPLY

A. Context

1. Macroeconomic indicators

Thailand has reached the status of an upper-middle income country with a Gross National Income (GNI) of per capita of USD 8,360 per capita (PPP in 2011⁶⁸). The country's economy has evolved tremendously over the past 30 years, and GDP (USD PPP) doubled during the first decade of this century alone. Thailand is now the 2nd largest economy in South-East Asia after Indonesia. The development of the industrial sector and the subsequent exportation of industrial goods help to explain this evolution.

The population of Thailand was of 69.5 million¹ in 2011 and remains mostly rural, with just 34%¹ of Thais living in urban areas. While the economic sectors have diversified and changed over the past 30 years, "according to a 2012 labor study conducted by the National Statistical Office of Thailand, over half of the population (62.6%) is engaged in informal employment." About 38% work in the agriculture sector and 7.8% of Thai remain under the national poverty line. The GINI index for Thailand, 40.0 in 2009¹, shows that the inequalities remain important in the Thai population. One can note that although only 7.8%¹ of people live below the national poverty line, almost 50% of Thai live with less than USD 5 (PPP) per day and that the rural-urban divide is important. Poverty has declined, and the middle class includes varied profiles, from low-income workers and farmers to urban office, sales and trade employees.

The Thai economy suffered from the repercussions of the 1997 and the 2008 financial crises, and major floods in 2011 have slowed down its economy in the late 2000s and early 2010s. However, GDP growth for 2012 again reached 6%².

2. Summary of insurance regulatory context

The regulator supervising the insurance activities in Thailand is the Office of Insurance Commission (OIC), under the Ministry of Commerce. The Thai insurance market is governed by the Life and non-Life Insurance Acts, which were last amended in 2008. While these documents establish the rules on capital requirements, licensing, reporting, distribution and other aspects of the insurance business, they do not specifically address microinsurance. The only official mentions of microinsurance are made in the Microinsurance Framework and the OIC "Orders", which were drafted by the OIC in 2011 after consultations with insurers operating in Thailand. The framework defines what constitutes a microinsurance policy, and covers the notions of simplicity and adequacy. It also defines maximum benefits and premiums.

The Insurance Development Plan Vol. 2 (2010-2014)⁶⁹ includes different objectives for the Thai insurance market. One component of this plan relates to insurance penetration and provides a specific target for microinsurance as part of its objective to increase penetration (to 6% by 2014) and coverage (with a density of THB 7,500 per person also by 2014) in the country. The fast growing insurance market necessitates strengthening the insurance system.

⁶⁸ World Bank data, 2011.

⁶⁹ "The Insurance Development Plan consists of clear insurance supervisory and developmental policies as well as the trend of the insurance business sector operations. The cabinet resolution acknowledged the Insurance Development Plan (Vol. 2). (B.E. 2553 – 2557) on 14 September 2010."

3. Outreach and Written Premiums - Insurance market

According to the OIC's reports, the most recent benchmark figures on insurance are:

Density of insurance: THB 4,600 (USD 150) as of 2009, meaning that the average individual insurance contribution was around USD 150

Penetration: 4.2% as of 2010-12 (i.e. 4.2% of Thais are insured with some kind of formal insurance policy)

Written premiums: THB 421 Billion (B) (USD 13.7B) at year end 2010

Market size breakdown: split between THB 328.9B (USD 10.7B) written Life premiums and THB 137.8B (USD 4.5B) Non-Life premiums (projected for 2012)

Market growth: annual growth over the past ten years has varied between 5-19% per year, with an average of 12.6% annually over the period 2001-2011.

4. Private Commercial Insurers

The supply of insurance in Thailand is managed through a large number of companies: 24 life companies and 61 non-life companies operate in the country. They are regrouped under two professional associations: the General Insurance Association (GIA) and the Thai Life Assurance Association (TLAA). Most companies are Thai-owned, as only six international insurers have subsidiaries in Thailand. Thailand also has two Thai-owned reinsurers.

5. Market – Products and channels

Some elements of the insurance market, such as the distribution options available to insurers, have an impact on the provision of microinsurance. Table 5 provides a breakdown of distribution channels that are used by insurers for their traditional insurance business.

Table 5 Distribution channels used by insurers in Thailand for traditional insurance business

Channel	Number	Status / Comment
Agents	290,705 registered agents	> 50% of the business
Broker	681 companies, 110,081 individuals	
Bancassurance		Fastest growing channel
Telesale (in/out)		Voice recorded as proof
TESCO	> 275 points of sale in Thailand	Minimal involvement in transactions
7-Eleven	6,300 outlets around the country (2011)	Dense network of outlets; they sell only compulsory covers (car) and receive bill payments ⁷⁰

A wide range of products are offered through these channels, but microinsurance is at a very nascent stage for the private insurers.

B. Definition of Microinsurance in the Thai context

Defining microinsurance should be context-specific, as the supply of insurance and the beneficiaries' profiles vary greatly by country. Therefore, for the purpose of this Asian Development Bank (ADB) - Access to Insurance Initiative (A2II) study, the broad definition of microinsurance – insurance for the low-income market – has to be reviewed and adapted to the Thai context. As described in the first section, Thailand is a transitional economy, and therefore the target segment for microinsurance (MI) products may not only be those at “the bottom of the pyramid.” Considering the socio-economics of Thailand (income levels and distribution of the population by income levels)⁷¹ and the low penetration of traditional insurance, the households which may be covered by microinsurance may not only include the informal sector and the above-the-poverty-line (APL) population but also the lower middle class (the rural middle class as well as the semi-formally employed and the lower middle class in urban areas).

Furthermore, the retained microinsurance definition should take into account the elements described in the following sections.

1. Regulatory framework

The regulatory framework, as will be described in the diagnostic report on microinsurance regulation, defines microinsurance based on a set of product features, such as caps on sums insured and on premium amounts. Although some insurers have used these standardized definitions, there are some products which do not match the criteria set by the OIC but are nonetheless being offered to and used by the low-income population. Some of these products are classified and filed with the OIC as insurance rather than microinsurance, and some products are being offered by institutions that are responsible to other regulatory bodies (e.g. cooperatives). All these products serving low-income households are included in the current supply analysis.

The appropriateness of the regulatory framework is discussed in detail in the regulatory analysis.

Community-based organizations (CBOs) as well as government agencies have also created insurance products which act as safety nets for the local population. While they do not fall under the insurance regulations, they are discussed in our analysis in order to offer a more complete perspective on the risk-mitigation tools to which the lower-income population currently has access.

2. ‘Industrial’ products

Historically, Thai commercial insurers have offered so-called “industrial insurance” to large groups of lower income households (see Box 1). These products appear in the insurers' associations and the OIC reports as a separate line of business. They are intended for a portion of the population which would also be part of the target segment for microinsurance products. These products are, therefore, also included in this microinsurance supply review.

⁷¹ See demand report, section 1.3

Box 1 Industrial Insurance

The original Industrial product in Thailand is an endowment plan covering accidental death, with the following characteristics:

No medical check-up requirement but a 180-day waiting period is applied. The insured can opt for a monthly premium payment based on the individual's capacity to pay. The insurance company calculates the amount of the sum insured based on the monthly premium (which is normally low). The coverage term varies by risk carrier.

In the past, monthly premiums have started from THB 100-300 (USD 3-10) and the maximum amount may be around THB 1,200 (USD 39) per month.

The main target group for industrial products is factory workers or those with low monthly income.

However, this line of business has experienced a high loss ratio and low persistency. Also, the low commission rates offered to agents do not provide adequate incentive for them to go into rural areas to collect premiums

The main providers of the Industrial line of microinsurance products are: Ocean Life, Thai Life and Siam Commercial New York Life. In 2011, the industrial products represented THB 8.5 Billion (USD 280MM) of written premiums across 2.05 million policies.

3. Subsidies

Considering the major role of the Thai government in both the provision of social protection and the distribution of insurance products, it is important that we include these subsidized schemes if we are to have a complete understanding of the current insurance market and the provision of social protection in Thailand.

Both fully commercial and subsidized / government schemes are included in this report, as understanding the roles of both public and private sector will be critical in the provision of microinsurance to low-income households in Thailand.

4. Microinsurance definition for this supply report

The recently released International Association of Insurance Supervisors (IAIS) "Application Paper on Regulation and Supervision of Inclusive Insurance Markets" defines microinsurance as:

Box 2 Microinsurance definition

"Insurance that is accessed by low-income populations, provided by a variety of different entities, but run in accordance with generally accepted insurance practices (which include the ICPs). Importantly, this means that the risk insured under a microinsurance policy is managed based on insurance principles and funded by premiums. Premiums can be privately or publicly funded, or a combination of both. The microinsurance activity itself should therefore fall within the purview of the relevant domestic insurance supervisor.

Microinsurance does not include government social welfare as this is not funded by premiums relating to the risk, and benefits are not paid out of a pool of funds that is managed based on insurance and risk principles. For the same reason, it does not include emergency assistance provided by governments, for example, in natural disasters (floods, fires) in low-income townships. However, as risk manager of last resort, the State may determine that there is a need to sponsor access to microinsurance for the most underprivileged through redistributive practices. There are cases where the State plays a stronger role in fully funding schemes, but these would only be considered microinsurance if they are run according to insurance principles."⁷²

Since one of the objectives of the supply study is to identify the frontier(s) of the insurance market in Thailand, we will include in the supply review:

All risks: Life, Health, Agriculture, Property

⁷² Application Paper on Regulation and Supervision Supporting INCLUSIVE Insurance Markets (Oct. 2012)

All potential target segments: lower-middle income, lower income, urban and rural

Commercial risk-carriers as well as government and government-supported schemes (though social security schemes will not be accounted for in the penetration figures)

All products complying with the following caps on premium in Table 6.

Table 6 Premium cap⁷³ for purpose of defining Microinsurance

<i>Risk Type</i>	<i>Cap as % of GDP per capita PPP</i>	<i>Premium Cap (THB)</i>	<i>Premium Cap (USD)</i>
Life	1%	1,675	55
Health	4%	6,695	220
Agriculture	1.5%	2,511	82
Property			

C. Suppliers of microinsurance in Thailand

The scope of safety net providers in Thailand is broad: many communities have established localized schemes, the government provides social protection to the informal sector, and commercial insurers and mutuals also offer insurance to the low-income population.

1. Types of providers

a. Community based organizations

The type of risk pooling solution which is the most common in Thailand is represented by CBOs (see Table 7). CBOs acting as insurers are membership based, retain risk within their membership, maintain some form of premium assessment and collection, and are responsible for assessing and paying claims. They may accept some capitalization or other assistance from government, donors, or others.

Table 7 CBO schemes

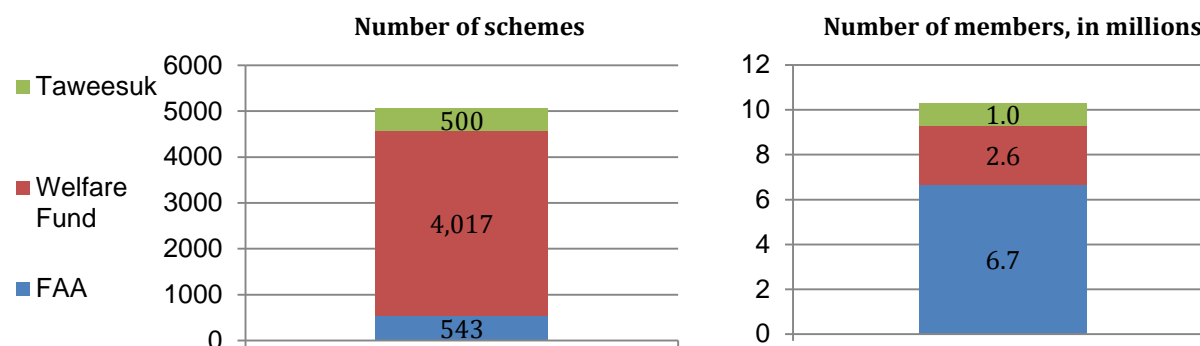
<i>CBO Scheme</i>	<i>Eligibility</i>	<i>Contribution</i>	<i>Benefits</i>
Funeral Aid Associations (FAA) (Funeral cover)	Borrower or depositor with BAAC and their spouse, 20-65 year-old, healthy (past BAAC clients can remain FAA members)	1.2% (Old figure - 2002)	Bank for Agriculture and Agricultural Cooperatives (BAAC) loan reimbursement (if applicable), Funeral and household expenses. Sum insured > THB 100,000 (USD 3,255)
Taweasuk Funds (Endowment/ Comprehensive)	BAAC clients	THB 1200-12000 (USD 40 – 390) per	Benefits in case of Birth, Accident, Death, Funeral, based on individual contribution level

⁷³ The caps represent an assumed threshold of the willingness to pay for insurance of the low-income population and are based on experience in other countries. Since in most cases GDP overestimates the income of the low-income population, the premium cap shown in the table represents an upper-limit to the amount a low-income household would pay for accessing an insurance cover. The life premium cap does not apply to endowment products for which contributions include a saving component.

product)		year (‘savings’)	chosen. At term, interest and savings are returned.
Welfare Funds (Comprehensive cover)	Contributing community member	Variable, from THB 1 (USD 0.05) per day	Benefits in case of death, sickness, birth, education, old age. Defined by each savings group.

The funeral and welfare funds are the most prevalent in the rural communities; urban settlers have less access to these informal options. These CBO schemes reach over 10 million people, with the breakdown shown below in Figure 6.

Figure 6 CBO scheme and numbers of members



Overall 10.3M Thai citizens belong to these groups. These CBO schemes are supported by the Bank for Agriculture and Agricultural Cooperatives (BAAC) and the Community Organization Development Institute (CODI), in terms of set-up, management, contribution collection and sometimes benefits disbursements, but they are largely community-run and represented by a board elected during the annual general assembly.

The benefits offered by the schemes cover a variety of life cycle events, such as birth, education, sickness and death (see Table 7, Column 4 for a more comprehensive list). Members of the community organize themselves to set up the pool of money that is used to fund claims. In order to belong to these schemes, one has to live in the areas where the schemes are operating, limiting the outreach to areas where schemes are already established.⁷⁴

The funeral and welfare funds are semi-formal options that build on social ties and are the extension of traditional mechanism to broader groups. They are therefore more prevalent in the rural communities, while urban settlers have less access to these informal options. In urban areas, such as Bangkok, CODI-supported cooperatives also offer risk pooling.

These schemes undeniably offer valuable support to the communities and are quite inclusive. However these schemes may be put under stress if: (1) events impact the whole community (e.g. the 2011 floods), (2) members encounter economic hardship and cannot contribute (e.g. in a drought year), and (3) they do not reach a critical mass of members to sufficiently spread the risk.

⁷⁴ Details regarding benefits, eligibility and financial information for these schemes are available in Appendix 3.

These community schemes also attempt to link the population with government schemes and may identify the most vulnerable households more efficiently than government agencies, bringing additional value to their members.

In areas where neither community organization nor government support is available to the population, the population lacks access to both affordable financing (e.g. community bank) and community-based semi-formal risk pooling.

b. Government schemes

The Thai government provides several social schemes to the whole Thai population. It has developed a set of schemes covering old age, health and agricultural production, among other risks. These schemes are described in greater detail in section 3.2

c. Cooperatives

Thailand is home to thousands of cooperatives in various sectors, including agriculture, fisheries, services, savings and credit. As of Dec 2012, 11.5 million Thais belonged to cooperatives; most of these were small farmers belonging to agricultural cooperatives (~54% of coop members) or credit union members (~30%)⁷⁵. These entities offer community-based support in the form of cremation associations and emergency loans, in exchange of an annual fee.

Additionally, the credit union members *own* an insurance company Union Life. The Credit Union League of Thailand (CULT) also offers insurance products that include savings- and credit-life cover to credit union members.

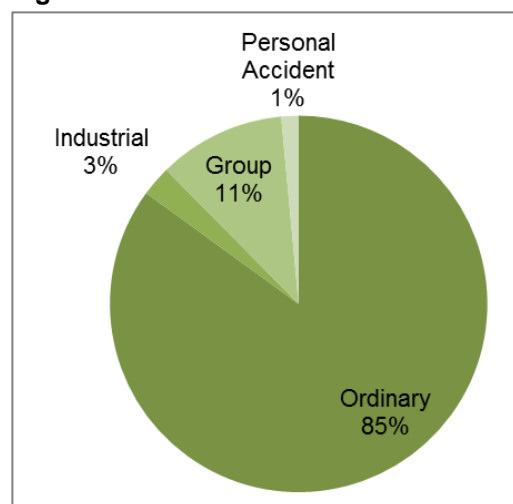
Complete data has not been shared by CULT.

d. Insurance Companies

The private sector has developed affordable products which aim at covering the lower income households. Out of all registered Thai insurance companies – 24 life insurance companies and 61 non-life companies – 14 have been identified as offering products which may be labeled as microinsurance (see Figure 7 for the breakdown of life insurance premiums). Very few insurers have actually explored and tailored products specifically for low-income households, and identifying the products accessible to the microinsurance-target segment has been challenging. As mentioned in Section 2, microinsurance products in Thailand may not be limited to the OIC framework definition and include industrial products as well as non microinsurance-registered products.

⁷⁵ Financial Condition of Cooperatives in Thailand 2012. March 2013. Cooperative Auditing Department, Ministry of Agriculture and Cooperatives. http://www.cad.go.th/ewtadmin/ewt/cadweb_org/download/download/pavaEng55.pdf

Figure 7 Breakdown of written life insurance premiums 2011 (OIC)



Complete data has not been shared by all the Thai commercial institutions contacted for us to assess comprehensively the low-income market offer. Table 8 identifies companies which offer products to the low-income market:

Table 8 Commercial microinsurance providers

<i>Risk carrier</i>	<i>Product Type(s)</i>	<i>Detailed data availability</i>
Muang Thai	Term-Life, Credit-Life, Personal Accident, Endowment	Partial
Ocean Life	Industrial	None
AIA	Personal Accident	Partial
Sompo Japan	Agriculture	Complete
U Life	Life, Credit Life, Endowment	Complete
Syn Mun Kong	Personal Accident	Partial
Thai Life	Life, Credit-Life, Personal Accident	Partial
Thaivivat	Agriculture	Complete
Tokio Marine Life	Personal Accident, Endowment, Health,	Complete
Thai Life Assurance	Term-Life	Complete
Thanachart	Personal Accident	Partial
Mittare	Personal Accident, Property	Complete
Thai United	Property	Partial
Tipaya	Credit-Life	Partial

e. Providers' Capacity

The different providers mentioned in the previous sections report to different authorities and the information on the products is patchy. The availability of data is limited, similar to other countries.

Since the CBOs and government have developed various schemes for the low-income market and have provided ex ante financing in the case of disasters, the private sector has made limited interventions into microinsurance, and most have not identified opportunities to develop

this specific market. Based on the input received during the interviews held in Bangkok, their interests and motivations remain limited.

Furthermore, most actors – whether public or private entities – appear to have limited knowledge of microinsurance principles and best practices as well as limited understanding of the low-income population's needs. However, at least one insurer, Ocean Life, having been providing extensive “industrial insurance” to the low income market for many years, very clearly understands the paradigm shift required of insurers to impact the microinsurance market. Such an insurer could act as an important example for microinsurance in Thailand.

2. Government schemes

The Thai government has set up a range of schemes which should be accessible to the low-income population. These schemes, most of them quite recently implemented, cover different types of risks.

Theoretically, the government schemes are accessible to all Thai citizens in all regions of the country. They are decentralized and managed at the regional, district or sub-district (tambon) levels. However, these schemes may not efficiently reach the low-income households. Most have been implemented over the past few years and may still be improved in terms of value to the population as well as *sustainability*. Additionally, these schemes are not accessible to the 10% of residents of Thailand who are not Thai citizens. These people and their families remain excluded from the social protection provided to the rest of the population.

The schemes are listed below in Table 9, by decreasing outreach.

Table 9 Government social protection schemes

Government scheme	Eligibility	Benefits	Cost Structure	Processes	Beneficiaries/ Members at 09/2012
Universal Coverage Scheme – National Health Security Office (NHSO) THB 30 (USD 1) scheme (2001)	All Thai Nationals who are not covered by formal and other gov't schemes	Comprehensive cover through access to public and private network healthcare facilities. Emphasis on OP and prevention.	THB 30 (USD 1) fee per visit. Scheme is otherwise financed by national taxes. Capitation system (USD 79 /person ⁷⁶).	Enrollment at hospital upon presentation of ID.	47 M (75% of Thai population; only Thai citizens and their families, no migrants covered).
Art. 40 - SSO – Ministry of Labour (2010)	15-60 years Thai citizens, self employed	Loss of income – Illness: THB 200 (USD 7)/day for 2-20 days of illness (Waiting period = 3 months of contribution) Loss of income – Disability: THB 500-1000 (USD 16-33) /day for disability (must be enrolled w/ NHSO and have paid for 6 months) Funeral: THB 20,000 (USD 660) (optional) Old-age/pension: lump sum received at age 60	Possible covers: 1st set of benefits = contribution of THB 100/month (USD 3/month) 2nd sets of benefits (incl. pension) = contribution of THB 150/month (USD 5/month)	May be paid at 7/11, BAAC, Tesco-Lotus; fee of THB 5/10 is paid per transaction Enrollment: at SS Office with ID	78,049 people insured out of 23M informal workers (3.4% penetration ratio)
National Savings Fund (NSF) - NSFO/FPO (2012)	15-60 year old Thai citizens w/o retirement savings plan or SS (thus excludes Package 2 beneficiaries of Art. 40)	Benefits depend on interest rate, members' savings and government contribution. Benefits are paid when member turns 60, or in case of death or disability. Benefits will come on top of current Old-Age Allowance (THB 500, USD 16) Example: THB 100 (USD 3) per	Voluntary monthly contribution between THB 50 and 1100 (USD 1.5 and 35) Co-contribution from government: 50-100% of members' contribution depending on age of member with a	Contribution will be done through KTB, BAAC and GSB. Deposit can also be made at 7/11	Target is 500,000 members for year 1

⁷⁶ Assessment of Thailand UCS – Synthesis Report, figure for 2010

Government scheme	Eligibility	Benefits	Cost Structure	Processes	Beneficiaries/ Members at 09/2012
National Catastrophe Insurance Fund - FPO (2012)	Property Policyholders	<p>month => expected THB 1252 /month (USD 41/month) at 60 if X years of contribution.</p> <p>Endorsement to current property policy triggered in case of CAT event: If wind exceeds 120 km/h, if floods (various levels of cover based on depth of water), if an EQ is greater than 7 on the Richter scale or if losses related to the event amounts to more than THB 5.5B (USD 180M) Sum Insured: Max THB 100,000 (USD 3,260)</p>	<p>maximum of THB 600-1200 (USD 20-40) per year.</p> <p>Tax-deductible contribution.</p> <p>Premium to NCIF: 0.5% of Sum Insured</p>	Claims based on the actual damage.	No low-income household will likely benefit from the scheme.
Agriculture Insurance Scheme - MinAg (2011)	All farmers. Crops: Paddy	Payout in case of Flood, Storm, Hail, Drought, Pest and Disease. THB 1111/rai (USD 36/rai) (except for THB 555/rai, or USD 18/rai). 1 crop cycle per year	THB 129/rai, (USD 4/rai) (THB 69, USD 2, government subsidy, additional THB 10/rai, USD 0.05/rai, if BAAC Client, rest of the premium is paid by the farmer)	Claims paid based on: 1) MinAg inspection 2) community hearings to determine trigger	55,000 farmers (3.7% penetration ratio)

a. Analysis of features of different schemes
i. National Health Security Office

A desk review of the Universal Coverage Scheme (including the evaluation conducted by ILO-SPF⁷⁷ and the independent 10-year evaluation report⁷⁸, see Appendix 1), showed a greatly positive impact: the program has improved access to healthcare facilities and reduced the gap between socio-economic groups in terms of access and financial burden. The program is reported to have reduced out-of-pocket (OOP) expenses for the least wealthy group and enabled access to out-patient, in-patient and Tier III healthcare services.

77% of respondents to the Finscope survey report visiting government facilities when seeking medical treatment. Among the lower-income households, this percentage reaches 86% (less than TBH 6000 per month) and 92% (less than TBH 3000 per month). The lower-income population has therefore access to public healthcare services in Thailand, reducing the financial burden of medical treatment.

Despite the successes to date, some challenges remain, as noted by both of the above-mentioned reports as well as by beneficiaries during the initial phase of the demand assessment. Major challenges include:

The **healthcare services and treatments** offered through the “30–Baht” scheme differ from the services offered through the other schemes (SSS - formally-employed Thai/CBM Civil Servants). “30-Baht” scheme beneficiaries are treated separately/differently at the facilities of the network (according to the input from the participants in the demand research phase).

Drugs covered: Some treatments are not covered under the “30-Baht” scheme, and comments from demand research respondents suggest that this results in an additional financial burden when accessing care through the scheme. A recent analysis of drug policies states, “After UHC in 2001, the drug benefits packages of the three tax-based insurance systems – CSMBS, the Social Security Scheme and the Universal Coverage scheme – were based on at least the drugs listed in the NLED and in principle can be reimbursed without co-payment. For CSS and UCS, [...] drugs are included in the capitation budget and so health facilities determine on their own whether they need to use other drugs outside the NLED.”⁷⁹

This scheme is heavily subsidized (by tax funding) and is therefore not insurance according to the IAIS definition. It works with a capitation system which may lead to limiting care, but also should be modified in order to **incentivize** health care providers to ensure patients are cured.

Health infrastructure: Over the 10 years of existence of the scheme, the infrastructure has improved, particularly in the regions and for specialists. However, patients experience long wait times and imperfect referral processes. The low-income population may still be confronted with OOP expenses and the long waiting periods represent a loss of income for the self-employed.

⁷⁷Schmitt, V. (ILO), Dr. T. Sakunphanit, and O. Prasitsiriphon (HISRO). Social Protection Assessment Based National Dialogue: Towards a Nationally Defined Social Protection Floor in Thailand.

⁷⁸Thailand’s Universal Coverage Scheme: Achievements and Challenges. An independent assessment of the first 10 years (2001-2010). -- Nonthaburi, Thailand: Health Insurance System Research Office, 2012. 120 p.

⁷⁹Yoongthong et al., 2012. National drug policies to local formulary decisions in Thailand, China, and Australia: drug listing changes and opportunities.

ii. Article 40

The Social Security Office (SSO) Art. 40 enables informal sector workers to obtain the same benefits as formal sector employees (since May 2011). On paper, this is a great achievement. A priori, the weaknesses of this scheme include:

The process to contribute to the scheme is impractical: with irregular income, informal workers may not be able to contribute consistently to the scheme and may lose the acquired benefits. The cost of transaction is very high for the monthly contribution at the points of payment: 5-10%.

The procedure to claim the benefits is difficult to maneuver

Most potential members have never heard about Article 40

iii. Pension fund

This scheme was very recently developed; based on projections and current procedures, one may notice that:

The interest is not guaranteed by the government and only indicative on the benefit grid provided to enrolled members.

The benefits may end up of limited value to the member once inflation is considered.

The locked-in savings may not attract the younger segment of the population nor the population with greater financial vulnerability, for which a long horizon will not be attractive.

The compulsory minimum monthly contribution of THB 50 (USD 1.5) could be a deterrent to the informal sector workers who have irregular cash-flow.

The financial viability of the scheme may be questionable.

iv. National Catastrophe Insurance Fund

The National Catastrophe Insurance Fund (NCIF) was established after the 2011 floods which struck Thailand on a large scale. The goal of the fund is to enable homeowners and businesses to be covered in case of natural catastrophic disasters. While this may benefit wealthier households which already have asset insurance policies, this scheme will likely have no impact on the most vulnerable population which has no access to property insurance yet often lives in more disaster prone areas. The NCIF program as it is implemented currently will not improve protection nor will it enhance financial inclusion.

Even if the cover could be extended to those who currently do not have property insurance, the extent of the cover is limited:

The maximum cover is THB 100,000 (USD 3,250), which in case of total loss may be much lower than actual loss incurred, especially for the lower middle-class.

Thus far, the events covered and the claims processes do not seem well-defined. If a large-scale catastrophic event struck again, this ambiguity would yield lengthy claims processes and settlements with potentially questionable decisions. See Appendix 2 for more information on the NCIF.

v. Agriculture and BAAC schemes

The government (in collaboration with commercial insurers for two products described in Section III.1.d Agriculture is channeling crop production covers and providing different safety nets to farmers, in particular rice farmers, who represent millions of farms in Thailand. The three ex-ante mechanisms available to the farmers are:

A paddy insurance scheme which the Ministry of Agriculture has developed. It is a multi-peril indemnity-based product offered to all Thai farmers, underwritten as of 2012 by NCIF (after a 500% loss ratio borne by a public insurance company in 2011).

BAAC clients can also opt for an index-based product offered by Sampo Japan, for rice crops.

A subsidized maize insurance cover was available in 2010 and 2011.

Based on Finscope data, the most common agricultural activities are: rice production (27% of respondents), poultry and rubber plantation.

The government also offers ex-post compensation and a forward contract to farmers:

Ex post compensation. The government offers relief compensation to farmers without initial contribution of the farmers in case of disastrous harvest.

Guaranteed price scheme - "Rice-mortgage scheme". This government scheme ensures a fixed rice product price to farmers: at harvest, rice is stored by government (for a period of 3-6 months) and farmers receive between 80% and 120% of a pre-agreed price. This product is thus a forward contract with an option for the farmer to get back his rice in order to sell it for a better price than the pre-agreed price rate. In exchange the farmer has to pay interest (3% p.a.) for the term of the contract or until the government receives the reimbursement of the initial pre-agreed price disbursement. In the 2011-2012 season, 2.45 million farmers availed the benefits of this program, which started in 2009. This price-guarantee scheme is also available for maize and tapioca.

Issues with these two mechanisms include:

The absence of incentives for farmers to protect themselves in advance of the season against natural perils which could impact their crop, as they are assured that the government will be providing support. Thus a low uptake of agriculture microinsurance products by small farmers may be observed even when the schemes are offered by an accessible intermediary and subsidized.

The absence of incentive for the farmers to use the option of recovering his rice and selling it himself, leading to huge stocks of rice which the government has to sell.

b. Outreach

i. Analysis of outreach and adequacy

From an outreach perspective, some major gaps remain with regard to the numbers of lives / properties covered by type of cover. As Figure 8 below demonstrates, with the exception of **health**, the outreach of current government programs is very low.

The Thai population has access to the Universal Cover Scheme (UCS) for health risks, which is important for the low-income population. But the informal sector still has little access

to formal social protection mechanisms (in cases of disability or early death), whether they are poor urban self-employed or rural farmers. The greatest outreach is actually attributable to CBO schemes, which have the advantage of their proximity to the low-income market but for which sustainability may be challenged during country or region-wide risk occurrences (e.g. floods). Also, the schemes that are available are mostly limited to covering risks related to death.

Even among the formal sector, low-paid payroll employees in factories often have a precarious employment status. They may have work in particular seasons or when the need for labor is high but have no work at other times. This situation excludes them from the benefits of continuous protection. This is the case even though they may have contributed through their payroll and are accounted for in the above-mentioned outreach numbers (ILO report).

Figure 8 Outreach of government schemes (2009-2012)

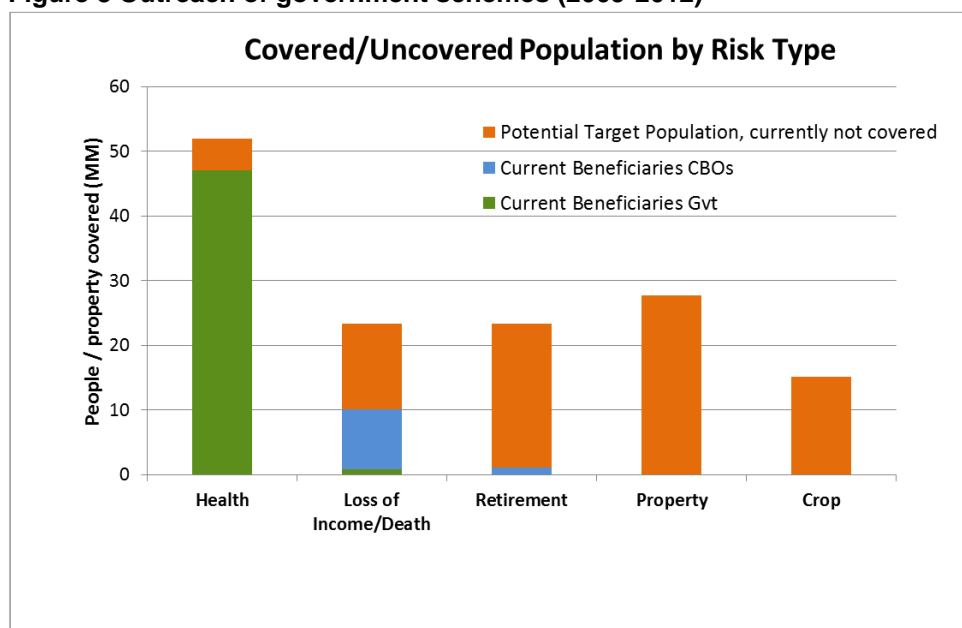


Figure 8 does not include the foreign migrants, who make up 10% of the residents of Thailand. Some migrants do have access to health insurance: registered migrants have to enroll in a compulsory health insurance scheme. However, they have no protection for other risk types, and undocumented migrants continue to have no health cover.

The disaster management strategy adopted by the Thai government includes a provision for catastrophic risk (CAT) cover. By definition, this initiative cannot reach the lower income households (LIHs) which are not covered by commercial property insurance policies. Thus the NCIF does not offer any improvement for the vast majority of Thais, as they do not have the pre-required property insurance.

As for long-term protection, LIHs can potentially access some endowment schemes as well as pension schemes. However, for the retirement scheme set-up in 2012 by the Ministry of Finance, incentives are minimal and a monthly contribution appears to be difficult to manage. The tax deduction which is offered on long-term life products is not relevant for the informal sector as they are often not paying taxes. Thus, the tax deduction is clearly more of an incentive for the wealthier formal sector workers to contribute to such long-term schemes. For these and likely other reasons, the take-up on these products is very low.

Furthermore, some issues are common to all the above-mentioned government programs and include:

Inappropriate contribution collection systems for an informal sector with no stable cash flow;

Enrollment processing centers that are mostly at government offices which are located in areas too far for the rural population and inconvenient for the target urban population.

The disbursement of benefits which, based on information available, is managed through unclear processes;

The level of benefits, in particular for retirement, which may not be attractive;

The limited communication to, and awareness of, the population about microinsurance issues and benefits. Awareness will remain low if no effective information campaign is undertaken.

D. Microinsurance commercial products

In addition to the CBOs and government schemes which cover several types of risks, regulated commercial insurers offer different products. This section details the product types and their outreach and reports the results of an analysis on their product features. Public information regarding the products is presented in Appendix 3.

1. Risk types of commercial products

a. Life i. Types

By far the most common products offered by commercial insurers are life products. In Thailand these include:

Personal Accident covers, for example those linked to bank accounts to which low-income households may have access in urban centers.

Funeral, Term-life and Endowment products, which seem to be linked to credit and savings services or membership in cooperatives. Stand-alone covers are not common, due to the distribution channel used.

Credit-Life covers may be available for borrowers at institutions such as BAAC and the Government Savings Banks (GSB) or through credit unions, cooperatives and other lending institutions.

“Industrial” life insurance products, as described in section 2.2, also fall under the life category, as reported by the OIC.

ii. Features

The **sums insured** on life products vary greatly, from as low as THB 5000 (USD 165) for some funeral covers to THB 350,000 (USD 11,500) for some life benefits. The microinsurance framework indicates maximum sums insured and a premium cap of THB 1,000 (USD 33) per year (or THB 500 / USD 17 per month for endowments), but most products do not fall under these benchmarks.

Sub-covers of these life products are common, including permanent disability and increased sum insured in case of accidental death. The most interesting feature noticed during the product review is the inclusion of hospital cash in some product benefits. Product benefits are most commonly provided in simple lump sum payments.

The **terms** of several life policies are long durations (3 to 20 years) and some require a single premium payment. These terms generally do not suit the low-income market, who typically have irregular cash-flows and low trust in financial institutions.

The OIC’s microinsurance framework mentions simplicity as one of the attributes a microinsurance product should have. Additionally, the framework states maxima for the benefits and contributions.⁸⁰

Maximum cover THB 100,000 (USD 3,300) for Term-life and Endowment products for respectively a maximum premium of THB 1000 (USD 33) per year and THB 500 (USD 17) per month

Maximum Accidental Death cover 10,000-100,000 (USD 330 – 3,300) for maximum annual contributions of THB 450 (USD 15)

Maximum Property covers (depending on construction material of property) THB 50,000-500,000 (USD 1,600-16,000) with maximum premium of THB 500 (USD 17).

Commissions are also capped for life and non-life products at 18% (exceptions are 10% for single payment life policies and 23% for economic, fire and dwelling covers).

However, the Life product information collected shows that insured benefits may be greater than the THB 100,000 (USD 3,300) limit mentioned in the OIC microinsurance framework and that products and covers are differently structured. Among the points to note about the products which fall outside the framework are:

AIA has designed some personal accident products specifically reserved (in terms of eligibility) for farmers (labeled as Class 1 & 2 occupation).

Age limits for the life, credit-life and personal accident products vary between 55 and 85. Benefits given may vary by age of the beneficiary (for the same premium amount).

As for applicable exclusions, leaflets collected did not include any detail.

None of these products is particularly innovative nor simple, nor tailored as per best practices in microinsurance.

Twenty-two life “microinsurance” products were identified in Thailand and are summarized by product type in Table 10 below.

Table 10 Number of life Microinsurance products identified by type

<i>Line of Business</i>	<i>Type of product</i>	<i>Number of products</i>
Non-Life	Health	1
	Property	2
Life	Credit-Life	4
	Personal Accident	11
	Funeral	0
	Term Life – ST (<=2 yrs.)	0

⁸⁰ “Microinsurance in Thailand” a PowerPoint presentation provided by the OIC.

	Term Life – LT (> 2 yrs.)	10
	Endowment	4
	Industrial	3

The products are too numerous to be detailed here; refer to Appendix 3 for details of public information on these schemes.

b. Health

No commercial health microinsurance products were identified in Thailand. All private health insurance products in Thailand are high-end products. No hospital cash products were identified as being offered as linked or stand-alone cover to the informal sector and lower-middle class markets. The explanation lies in the provision of the UCS by the government and the fact that private clinics are very expensive healthcare providers.

c. Property – CAT

No commercial product protecting assets, whether personal assets or micro-business assets (such as machinery, leased equipment or stock), has been identified. Some property covers may be compulsorily linked to credit, but this category of protection of assets does not apply for the low-income segment. Additionally, as seen in the previous section, no cover related to natural catastrophe is available to households which have not previously obtained property insurance policies.

d. Agriculture

While the agricultural risk policies described above are offered through government-linked channels, several are underwritten by commercial companies. This public private partnership mechanism has been somewhat successful in Thailand and should be expected to continue as a means of enhancing access to microinsurance.

In the case of the Weather-Based Index insurance for paddy rice:

One of the products was developed and is underwritten by Sampo Japan

A second paddy policy is available from a consortium of the General Insurance Association (GIA) members

For the maize product, another consortium of insurers had developed and underwritten the risk until last year.

The details of each product are displayed below in Table 11.

Table 11 Thai agricultural Microinsurance products

	SJ Product	2nd paddy product	Maize Product												
Underwritten nationally by	Sompo Japan														
Reinsurance	N/A	AON and Swiss Re + Other reinsurers (90% reinsurance)	Thai Reinsurance Public Company at inception, then quota-share w/ int'l reinsurers												
Trigger event	Index-based product , July to September, cover in case of drought Two phases / triggers: July, then August and September.	Multi-peril – Indemnity based. Payout if total loss to crop is declared by local committee	Index-based product , Catastrophic drought event: <table border="1"> <thead> <tr> <th></th> <th>Phase 1</th> <th>Phase 2</th> <th>Phase 3</th> </tr> </thead> <tbody> <tr> <td>Range (mm)</td> <td>50-100</td> <td>20-50</td> <td>30-60</td> </tr> </tbody> </table>		Phase 1	Phase 2	Phase 3	Range (mm)	50-100	20-50	30-60				
	Phase 1	Phase 2	Phase 3												
Range (mm)	50-100	20-50	30-60												
Benefits	Payout = 2 thresholds: (a) drought with an indemnity of 15 percent of the principle; and (b) severe drought with an indemnity of 40 percent of the principle	•Growth (60 days): payout = THB 606 (USD 20) per rai •Ripening (> 60 days): payout = THB 1400 (USD 45)	<table border="1"> <thead> <tr> <th></th> <th>Phase 1</th> <th>Phase 2</th> <th>Phase 3</th> </tr> </thead> <tbody> <tr> <td>Pmt THB/mm /rai (USD)</td> <td>7.14 (0.23)</td> <td>9.15 (0.30)</td> <td>12.95 (0.42)</td> </tr> <tr> <td>Max Pmt THB (USD)</td> <td>380 (12)</td> <td>458 (15)</td> <td>648 (21)</td> </tr> </tbody> </table> <p>Max. THB 1800 (USD 58)/Rai THB 7-13/mm per rai depending on the growth phase (2010)</p>		Phase 1	Phase 2	Phase 3	Pmt THB/mm /rai (USD)	7.14 (0.23)	9.15 (0.30)	12.95 (0.42)	Max Pmt THB (USD)	380 (12)	458 (15)	648 (21)
	Phase 1	Phase 2	Phase 3												
Pmt THB/mm /rai (USD)	7.14 (0.23)	9.15 (0.30)	12.95 (0.42)												
Max Pmt THB (USD)	380 (12)	458 (15)	648 (21)												
Eligibility	BAAC clients, farmers in 9 provinces where product is available	BAAC clients, voluntary enrollment	BAAC Clients, voluntary scheme												
Premium	Loan-financed premium: USD 10-50; rate = 4.64%	THB 120 (USD 4) + tax (7%) and 50% subsidy by government i.e. THB 129 (USD 4)/rai (THB 69 (USD 2) government subsidy, additional THB 10 (USD 0.30)/rai if BAAC Client)	Average: 10% rate; THB 100 /Rai (USD 3/rai). Loan-financed premium												
Distribution	BAAC receives a 5% management fee for distributing these agriculture products on behalf of the private insurance company.														
Outreach	Around 6,000 famers (currently in year 2); only 800 in 2012	55,238 farmers. 1MM rai insured in 2011	Product not available in 2012 3,182 farmers were insured in 2010 and 3,421 in 2011, representing less than 1% of the national maize area. (320,000 farm cultivated maize in 2004)												
Maturity	2010														
Developed by	Japan Bank for Intl Cooperation (JBIC) and Sompo Japan (2008)	No data available	MoF – FPO (2006)												
Supported by	Japan Bank for Intl Cooperation	No data available	World Bank												

Two of these products are index-based products, following the current trend of agricultural insurance products developed in Africa, Latin America and other Asian countries. All agricultural insurance products were reviewed and pre-approved by the OIC.

No livestock insurance was identified as being available to rearing and dairy farmers in Thailand as of 2012.

2. Target population and penetration

The products filed to OIC as microinsurance under the framework definition only account for a very small number of policies. The statistic shared by the OIC for the year to June 2010-2011 are as follows in Table 12:

Table 12 OIC Microinsurance framework policies (2011)

<i>Line of Business</i>	<i>Type of product</i>	<i>Number of policies</i>
Life	Endowment	2,719
	Term life	2,623
	Personal Accident (PA)	4,045
Non-Life	Property - Dwelling	85
	Agriculture	10,752

If we summarize the other products, which do not fall under the OIC framework, we obtain the following outreach numbers as displayed in Table 13 (excludes government social security programs):

Table 13 Life Microinsurance policies identified

<i>Line of Business</i>	<i>Type of product</i>	<i>Number of policies</i>
Life	Credit-Life	2,660,000
	Personal Accident	Not Available
	Funeral	None identified
	Term Life - ST	Not Available (see note below)
	Term Life - LT	17,000
	Endowment	180,000
	Industrial	2,050,000
Non-Life	Health	305
	Property - Dwelling	1033
	Agriculture	56,000 farmers

Note that the following companies were contacted, as they offer products which would match the microinsurance definition retained for this report, but incomplete quantitative data was provided: Muang Thai, Ocean Life, AIA, Thai Life, Tipaya, SMK. Smaller players in the sector may have qualifying products but of much more limited outreach. Therefore the above-mentioned figures are underestimated and would be more accurate if all companies shared information on the outreach of the schemes they offer.

Considering the distribution channels used (see section 5), the target populations of these microinsurance products are mostly BAAC farmers, GSB clients and the lower middle class. Note that GSB clients may be well-off, and that some people have multiple accounts.

3. Client value

The **covers** as described in Appendix 3 seem to be appropriate in terms of range of amounts insured and types of cover (for the risk types for which covers are available). They correspond to several months of income. The amounts should be compared to actual funeral expenses and living expenses to assess actual (if not perceived) value of the product for the insured. However, only the policyholders are mentioned in the product details availed, and nowhere is there a mention of the spouse or other family members. The extent of the cover is therefore limited to one individual when a financial shock may arise from the death of another household member.

It is surprising to see that most Term Life policies have **policy terms** longer than one year. This time horizon is long for potential clients who have no previous insurance experience, and it is inadequate for the low-income households who may access insurance products for the first time. Furthermore, some of these products require a single-premium payment which may make it unaffordable for the intended target segment.

The observed **premium** range is very wide. Some credit unions offer very low contribution products – as low as THB 18 (USD 0.5) per year – while most products range between THB 200 and 1000 (USD 7 and 33) per year. The endowment products of course require larger contributions. However, some endowment products allow premiums up to THB 1000 (USD 33) per month, which reinforces the fact that some of these products are not actually intended to be sold to the microinsurance target segment represented by the lower-middle class and the least wealthy portion of the population. We can therefore conclude that although the number of products offered is not trivial, the affordability of these products may constitute a challenge for Thai low-income households.

The **eligibility** criteria and the distribution channels limit the actual access the LIHs have to the products developed by insurers. For example, one has to be a BAAC client - a farmer - to purchase some products, while other eligibility criteria include membership in cooperatives or other membership groups. This limits access for those who do not belong to such groups.

The age criteria observed for eligibility in most cases was 15 to 60 years old. However, in some cases, microinsurance programs accept people up to 75 or even 85 years old for cooperative products, which makes some of these products very inclusive, if not potentially more expensive.

There were not enough details in the collected information to assess the client value from the perspective of service quality (e.g. processes for enrolment, premium payment, claims reporting and payment, etc.).

4. Barriers to Microinsurance market development

The number of products developed and the distribution channels to get them to clients are limited. During the interviews conducted with insurers based in Bangkok (local as well as international groups, life and non-life companies, microinsurance providers and non-MI providers, companies of different sizes), some themes were recurrent in the discussions. Among the barriers identified or perceived by the insurers are⁸¹:

a. Regulation

The agent definition is found to be too restrictive to enable the set-up of distribution channels that reach the low-income market.

⁸¹ Order of themes listed is not indicative of importance given by respondents.

The filing process time with the OIC is too long for insurers to seize opportunities.

The requirements on documents stated in the regulation (paper proof + signature for all policies, distribution of documents) makes the process an operational and financial burden.

b. Distribution channels

Agents still dominate the distribution channels in Thailand, and commission rates are too low for individual agents to be an incentive to sell microinsurance.

Insurers cannot identify mass distribution channels for microinsurance products.

Microinsurance distribution is thus far essentially limited to a few government-owned organizations.

c. Capacity

There is no local agricultural insurance specialist in Thailand.

The capacity of insurers in understanding and implementing the microinsurance paradigm shift is limited. This is true particularly in terms of product selection and design.

The incentive for insurers to develop capacity is limited because of government crowding out of potential commercial business. One of the main perceptions from insurers was that the low-income population was served by the Thai government schemes and that opportunities for commercial insurers were therefore limited.

In addition, Thai insurers mentioned perceptions which are recurring issues in other countries where microinsurance is not very well developed, or where exposure to microinsurance solutions is not common:

d. Products

“Products are unaffordable for the low-income segment.”

“It is too complex for insurers in terms of Risk Management and Underwriting to offer microinsurance products.”

e. Operations and strategy of insurers

Although some market research was undertaken by two insurers exploring the potential for their entry into microinsurance in Thailand, they did not pursue their microinsurance endeavors for reasons cited above.

There are too many operational issues for the set-up of the schemes (e.g. required verifications).

This market segment is not viewed as profitable by insurers.

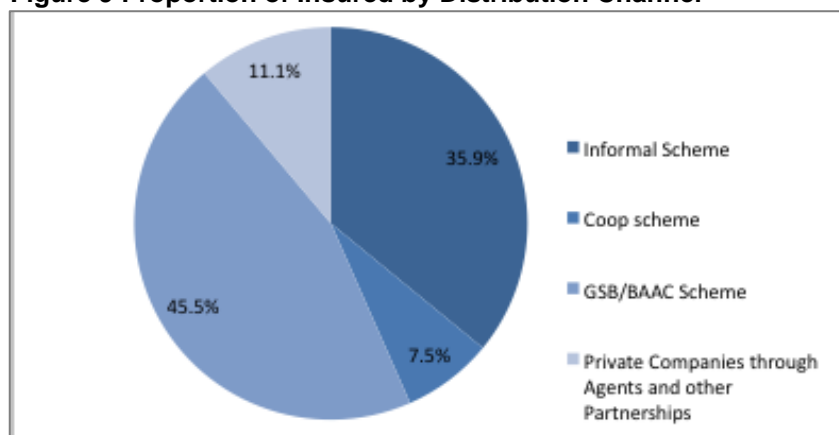
The lack of adequate technology hinders the potential to decrease costs.

Finally, insurers observe, or perceive, a lack of consumer awareness for insurance among the low-income segment. However, the insurers interviewed did not all agree on the impact of the 2011 floods on risk perception by the Thai population.

E. Distribution channels

The microinsurance-labeled products described in sections 3 and 4 are offered through a limited number of channels. The outreach by channel is as follows in Figure 9.

Figure 9 Proportion of Insured by Distribution Channel



1. Current channels and outreach

a. Community-Based Organizations

Currently, the main way to reach the low-income households is through CBOs. They have the greatest outreach and offer a range of informal solutions to community members. They act as both risk carrier and distribution channel.

b. BAAC

Through a partner-agent model, the government-owned bank offers a number of insurance products. The organization collaborates with 10 non-life companies and 7 life companies to distribute products to its client-base across Thailand⁸². However, despite the presence of BAAC across rural areas, the potential clients are only the qualifying borrowers of BAAC.

c. GSB

The other main government-owned bank, GSB, manages its microinsurance provision through two methods. Their endowment product is managed internally while other insurance products are simply distributed for insurance companies. GSB has mentioned ambitious target growth figures for microinsurance in recent public announcements.

d. Cooperatives and Credit Unions

The cooperatives act allows cooperatives to operate as both risk carriers and agents of a registered company. Similar to CBOs, they offer a range of protections to their members.

e. Microinsurance agents

Microinsurance agents are accredited based on a relaxed set of rules for the distribution of microinsurance products. However, they are only entitled to sell microinsurance products. This channel is actively pursued by some insurers. For example, Muang Thai has 10% of its 30,000 agents offering microinsurance (in villages). The OIC noted that as of the end of 2010, there were 271 life and 157 non-life accredited microinsurance agents in Thailand.

⁸² Incomplete information is available on these products and their outreach.

f. Banks

The insurers leverage the clients of some banks as well. Some insurers, which are tied to banks, take advantage of this sales force (e.g. Muang Thai). The target population may be different through this channel, as nearly 50% of the population remains unbanked;⁸³ therefore this channel probably caters to better-off households.

g. 7-Eleven Retailers

In an effort to expand the outreach of microinsurance five insurers (Muang Thai Life Assurance, Bangkok Insurance, Muang Thai Insurance, Alliance Ayudhya Assurance and Thaivivat Insurance) are working with Counter Service Co. Ltd. to sell microinsurance through most of Thailand's 7-Eleven stores. Commenced in March 2013, Counter Service plans to offer various microinsurance products through up to 6,800 of its 7-Eleven stores. Three hundred thousand policies are expected to be sold in the first year.⁸⁴

2. Potential channels and outreach

Some potential distribution channels have not been explored yet, either due to regulatory restrictions or to the absence of initiatives so far. Based on a preliminary review of options, we can assume that the following channels in Table 14 also have the potential to reach the lower income population:

⁸³ Noted during a meeting with the TLLA in September 2012.

⁸⁴ "In a first, Counter Service to offer microinsurance option." Bangkok Post. 14 February 2013.

Table 14 Potential distribution channels

Potential channel	Advantages	Disadvantages
Thai Post Office Network	Proximity, 'Brand' awareness	Lack of IT system potentially, Incentive model to staff
Mobile Network Operators	High cellphone penetration, Payment system	Technology development, Transaction fees
Retail (e.g. 7 Eleven, Telco Lotus)	Density of outlets, Brand awareness	Incentive model, Transaction costs
Unions	Trust, Premium collection on work-site	Low penetration in Thailand (<3%)
Government Housing Bank	Government entity, Trust, Bundled transactions, Protects loan purchase	
Islamic Bank	Underserved population, Government entity, Trust	Potential cultural barrier
NBFIs	Bundled Transactions	Few entities
NGOs	Trust	Very few large NGOs
Agri tools and supply chain	Bundled transactions, Rural segment	

F. Other elements impacting Microinsurance

The donors which have been supporting the development of microinsurance in Thailand are the Japan Bank for International Cooperation and the World Bank. Both agencies have been involved in the agricultural insurance product projects. No other funding and supporting source has been identified.

The current trends in the microinsurance supply in Thailand are:

A decreasing industrial Line of Business,

Attempts to develop agriculture insurance, in particular with several insurers working collaboratively on this type of product.

Efforts to overcome the current distribution bottlenecks.

Since the 2011 floods, the availability of reinsurance has decreased on the Thai insurance market.

G. Conclusions

1. Penetration

The number of Thai insured under different types of microinsurance schemes is displayed below in Table 15 as a summary.

Table 15 Overview of Microinsurance policy numbers by type

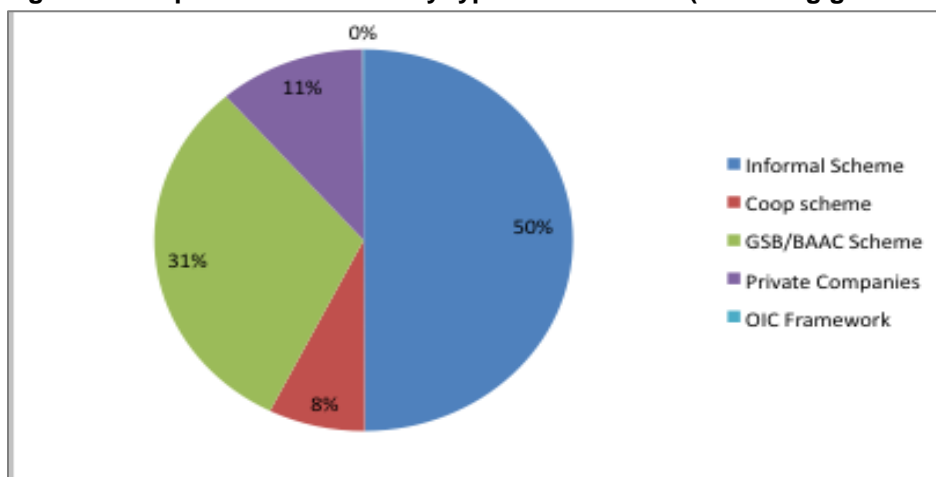
	<i>Public Schemes</i>	<i>Informal Schemes</i>	<i>Coop schemes</i>	<i>GSB/BAAC Schemes</i>	<i>Private Companies Products</i>	<i>OIC MI Framework Products</i>	<i>Total excl. public schemes</i>
Health	45,000,000				305		305
Welfare	786,000 ⁸⁵	2,600,000	1,229,000				3,829,000
Personal Accident						9,783	9,783
Credit-Life			20,000	3,640,000			3,660,000
Funeral		6,680,000					6,680,000
Life		2,600,000	117,000	1,000,000		2,474	3,719,474
Industrial					2,050,000		2,050,000
Endowment			20,000	160,000		2,947	182,719
Retirement				998,000			998,000
Property						1033	85
Crop					56,000		56,000
Total	45,786,000	9,280,000 ⁸⁶	1,386,000	5,798,000	2,106,305	16,237	18,439,472

The proportion of microinsurance products offered by the private sector only accounts for 11.5% of insureds. This represents a major imbalance between the public and private sector in general. However, this imbalance is focused on the universal coverage offered by the government. Outside of that coverage, government intervention is rather limited. Figure 10 below illustrates well the distribution of insured by risk carrier for all types of risks.

⁸⁵ Art. 40

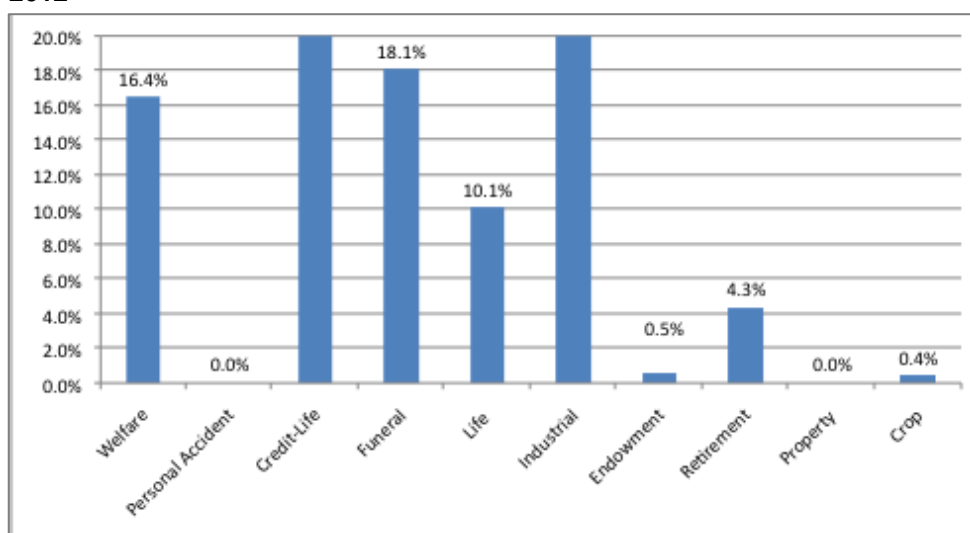
⁸⁶ Welfare funds offer both welfare (hospitalization benefits as well as death benefits, thus are counted twice in terms of insureds by risk but once only in the total)

Figure 10 Proportion of insured by type of risk carrier (excluding gov't schemes)



Comparing the absolute figures with the potential target population numbers, we can assess the penetration of microinsurance among the low-income population⁸⁷. Figure 11 shows the penetration of microinsurance products by type of product.

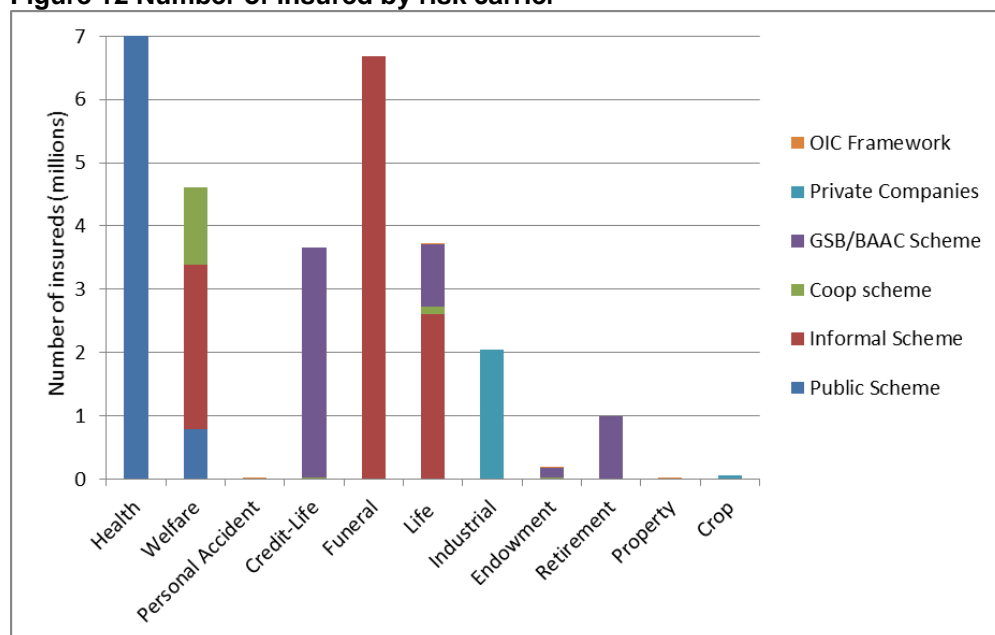
Figure 11 Penetration percentage of Microinsurance products by type of product as of 2012



The penetration figures remain very low with the exception of credit-life and industrial products. The penetration of the non-life products and longer-term products is almost negligible. It may seem that the penetration of microinsurance products is greater than that of other Asian countries. However, the proportion of insured covered by formal schemes is very limited, as shown in Figure 12:

⁸⁷ A table of the potential target segment numbers is available in Appendix 4. The numbers differ by product type, based on relevance, eligibility and size of target population.

Figure 12 Number of insured by risk carrier



In addition to the penetration of microinsurance products by risk type, one crucial element in this supply analysis is the eligible population and the actual access to the covers by the low-income population. The following Table 16 illustrates the depth of the penetration of microinsurance within the population, considering location and economic profile.

Table 16 Summary - profiles and accessible covers

	Economic profile	Life	Health	Agri	Property
Urban (34%)	Informal Sector Factory Worker Lower Middle Class	Act. 40 Industrial product GSB, Banks	UCS		No option
Rural (66%)	Farmer Informal Sector Lower Middle Class	Credit-life and life through coops and BAAC Funeral Associations, Informal schemes (CBO), Cooperatives and credit Union, Act. 40 Informal schemes (CBO), GSB		Only BAAC farmers (in 9 provinces for paddy WBI)	

Considering the urban-rural differences as well as the economic status of the target population, we can see that:

The rural non-farmers do not have options to access any formal insurance products

The rural population, other than BAAC borrowers, has very limited access to formal insurance solutions

No asset insurance is available to the Thai low-income population.

The factory worker, the informal urban sector and the lower middle-class have very limited options in terms of life products and none in terms of long-term products (such as endowments).

2. Recommendations

Considering the gaps in cover mentioned above, in order to address the weaknesses of the products and distribution channels currently offered to the low-income population, the Office of the Insurance Commissioner and the Ministry of Finance may join their efforts to:

Review the framework and regulation around microinsurance. Products currently sold to the low-income households are not simple nor adequate products for a population with limited financial literacy.⁸⁸

Promote the development of simple, valuable, tailored products by the private sector, to be offered through the State Financial Institutions (SFIs) and Civil Service Organizations (CSOs) through capacity building of commercial and cooperative insurers, offering incentives to these entities to explore the low-income market.

Address the issues related to distribution channels:

Enforcement of sanctions when agents do not respect their obligations/code of conduct and provision of a hotline to report complaints may help reduce fraud and foster trust among the rural and low-income population.

Micro-agents: This status has not promoted the distribution of microinsurance products and should be reviewed.

Rural areas: the needs of non-farmers and non-BAAC clients who have no access to products should be addressed by exploring broader options in terms of distribution.

Additional distribution channels: rural population has contacts with retailers and other service providers which could act as agents; e.g. agriculture retail.

Modes of payment: facilitating flexible premium payment such as mobile transfer and use of other points of contact (such as retailers) would enable people in rural and remote areas to avoid any opportunity cost which may act as barriers to access to and renewal of policies.

Ensure that products currently offered through BAAC and GSB are actually accessible through the branches and staff of BAAC (information at the branches, training of staff).

Review policies for the provision of social support in order to ensure that government efforts reach the most vulnerable and poorest segment of the population while creating an enabling environment for the private sector to offer complementing covers to the population. The

⁸⁸ Refer to the microinsurance regulation paper.

government may particularly look into risks and target groups which the private sector will not try to reach in the short and medium term.

Support the Art. 40's promotion and review the NCIF and Pension schemes, as they do not reach the low-income target population by design.

Conduct further research on the UCS from a user's perspective in order to improve the services offered to the UCS beneficiaries.

Review the rural development policies to integrate insurance on a larger scale while providing other risk mitigation mechanisms (e.g. flood-proof infrastructure, training to farmers on preparedness).

IV. MICROINSURANCE DEMAND

A. Introduction

1. Objectives of Demand research

In order to assess the potential market for microinsurance in Thailand, the supply research conducted in 2012 needs to be completed with an understanding of:

How the current (micro)insurance products available in the country match the needs of the population, and

What the barriers are to accessing these products.

Therefore the objective of the qualitative demand research is to identify the needs for and perception of insurance protection by the Thai low-income population. While the quantitative survey (FinScope) will provide insight on some issues, this qualitative research has sought to explore the respondents' experiences, knowledge and understanding about risk and insurance. It has enabled us to uncover factors that impact people's actions and ideas toward risk and insurance.

Comparing customs and perceptions of risks for different segments of the low-income population, we were able to understand:

the **risks** people perceived they are exposed to (e.g. funeral, health, property, etc.)

how households currently **cope** with these financial risks (e.g. cooperatives, moneylender, etc.)

how households consider and **rank** these risks

the level of **awareness** of insurance among the low-income population

2. Methodology

Since it is not feasible to interview Thai nationals of all backgrounds and profiles, it was decided that representative groups would be selected in the following **locations** (see Figure 13):

Bangkok

Saphan Kwai

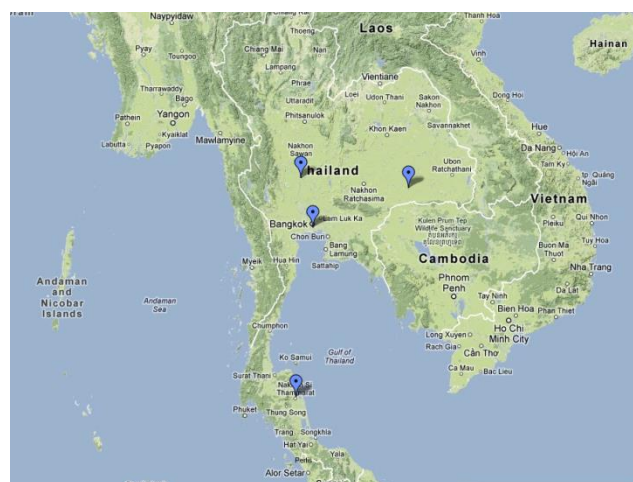
Kloeng Toi

Surin Province

Nakhon Si Thammarat Province

Chainat Province

Figure 13 Location of focus group discussions



In these locations Focus Group Discussions (FGDs) were conducted by C. Tatin-Jaleran, assisted by Athitaya Rattanapan (one location) and Kantirose Rangksikorn (all other locations). FGDs were sound-recorded in order for the translator to focus on the translation, the discussions with participants, and the follow-up questions without having to take notes. Recordings were reviewed after each FGD in order to ensure that no information was missed and to check words used and participant interactions. The semi-structured interviews lasted between 1 and 2 hours depending on each group's composition and answers.

The **profiles** of FGD participants reflected the type of economic profiles that can be found in both rural and urban settings: most participants in the rural locations were farmers, but the groups also included self-employed and salaried people. In the coastal province of Nakhon Si Thammarat, several groups of fishermen were interviewed as well as members of the Muslim community. In the urban locations, a mix of self-employed and semi-formally employed individuals were interviewed.

In all locations, both men and women participated, and in most cases their ages ranged from 20 to 60. Each group was comprised of 6-10 participants with characteristics as described in Table 17. Additionally, it was requested to the coordinator that the participants should be married and be wage earners in their household. The prospective participants were not given details on the purpose of the research: they were invited to discuss broad financial topics and were assured that the purpose was not to sell them any service or product.

The participants' selection was rendered possible with the help of community coordinators. These coordinators were introduced to the team thanks to Khun Panthip from Community Organizations Development Institute (CODI): in Bangkok, Nakhon Si Thammarat and Surin, while the Chainat coordinator supports work from a Bangkok-based professor.

The **FGD guidelines** can be found in Appendix 5. Details regarding follow-up questions, methodology and analysis are given in sections 2 to 6. Additionally, some questions were added to the microfinance qualitative research guidelines in order to check the validity of a few findings in different locations [to be included in May-June in this report].

Table 17 Summary of FGD schedule

Location and dates	Socio-economic background	Gender	Age Group	Number of groups and total participants
Bangkok	Low-income earners in formal sector	M/F	20-40	1
Kloeng Toei (Sept 19 th - 20 th 2012)		M/F	40-60	1
Saphan Kwai (January 23 rd - 24 th 2013)	Self-employed/ Informal sector	M/F	20-40	2
			40-60	2
Surin Area – Rural	Farmers	M/F	20-40	1 group – 6 participants (1 man, 5 women)
Slaeng Pan (15 th - 16 th January 2013)			40-60	1 Group - 10 participants (4 women, 6 men)
	Rural low-income population – Non-farmers	M	20-60	1 Group – 6 participants (minimart owner, carpenter, organic product company employee, non-resident employees)

		Middle-class			
Nakhon Si Thammarat		F	20-60	1 Group – 6 women (silk activities, factory, garage, construction, restaurant employee)	
	Fishermen (Sichon)	M	20-60	1 group of a dozen fishermen, from a very poor community.	
	Villages: Krung Ching, Pak Panang, Sichon, Lan ska and Na sai	Farmers (3 locations)	M/F	20-60	1 group of 10 people in Krung Chin
			M/F	20-60	1 group of 11 farmers in Lan Ska
January 19 th - 21 st 2013		F	40-60	1 group of 12 older women in Na Sai	
	Muslim minority – Fishermen (Pak Panang)	M	20-60	1 large group of Muslim fishermen, 11 people.	
		F	20-60	1 group of 11 Muslim women, all wives of fishermen except one market vendor	
Chainat	Farmers	M/F	20-40	Group of 6 farmers who are all Bank of Agriculture and Agricultural Cooperatives (BAAC) members (3 men, 3 women)	
	Farmers	M/F	40-60	Group of 6 farmers who are all BAAC members (5 men, 1 woman)	
	Farmers	M/F	30-60	1 group – 6 participants (1 man, 5 women)	
	Farmers	M/F	30-60	6 participants (1 man, 5 women)	
	Rural low-income population – Non-farmers	M/F	30-60	7 participants (2 men, 5 women)	

B. Economic environment

The following section describes some socio-economic characteristics of the population interviewed and their geographic environment. It provides some background information on the setting in which the respondents live in order to support the analysis of the facts and comments mentioned by the FGD participants. In particular, economic activities, income sources, household composition and assets are illustrated for both rural and urban locations.

1. Rural setting

The three rural locations visited for the FGDs are quite different from each other and give an idea of the variety of the geography of Thailand and how the geographic context may impact the economic activities, risks faced and access to services in a particular region.

In the North-Eastern province of Surin, the main crop is rice. There is little irrigation infrastructure in this drier plain of the country. The village visited, Slaeng Pan, is located 16km from Surin and 1km from the main road. The capital of the province, Surin, is a small town of 41,000 inhabitants; it is a lively center where one can find outlets and branches of financial service providers.

The province of Nakhon Si Thammarat is located in the Southern part of the country along the coast of the Gulf of Thailand. Its topography is hillier, the vegetation is lush, and the crops are more varied. Some villages may be more remote, and distances to minor towns are important (for example, villagers mentioned that the nearest bank branch is 20km away). A part of the population lives on the coast and includes a more important Muslim minority.

The Central province of Chainat is relatively small (2,469.7 km²), and access to services may be better than in other parts of the country. Chainat is located in the river plain, and its main crop is rice. It benefits from the country's largest irrigation system for the irrigation of rice paddies in the lower river valley. Although located in the flood plain, the flood control is much better than in other provinces, due to the first dam built in Thailand.

In all locations, the majority of participants make their living from agriculture activities. However, many participants reported having more than one occupation and juggling between jobs to earn a living. Very few participants are formally employed. In Nakhon Si Thammarat, the poorest segment is composed of fishermen who have greater difficulty earning a living and seemed more vulnerable.

The income levels mentioned by the rural participants can be summarized in Table 18.

Table 18 Rural participant income levels

	Lower range	Higher range
Surin	THB 3000-5000 (USD 96-160 ⁸⁹)/month	THB 10,000 (USD 320)/month
Nakhon Si Thammarat Province	< THB 1700 (USD 55)/month	THB 4000 (USD 128)/month
Chainat	THB 2000 (USD 64)/month	THB 7000 (USD 224)/month

Most households interviewed are composed of parents and school-age children. These households may receive remittances from relatives in Bangkok, especially older respondents whose children have left for the capital city. When available, these remittances complement the incomes listed in the table above. Incomes are seasonal for most respondents (both fishermen and farmers), but farmers mentioned that they take other jobs to earn money during the months when agriculture production does not require work or when additional income is required to pay for expenses.

Rural households live in different types of housing depending on region and income, and they own assets and have access to goods. All farmers engage in mechanized farming, and while some own their own machinery, most of them rent the necessary equipment. In Surin,

⁸⁹ The exchange rate used was the period average of 0.0320 (THB/USD) from Jan. 1, 2012 – Dec. 31, 2012: <http://www.oanda.com/currency/historical-rates/>

people also own livestock (mainly cattle), whereas in Nakhon Si Thammarat, where grazing land seemed less accessible, it is not as common for rural households to own cattle. However, it seemed that households consume non-essential goods, such as electronics (e.g. cameras), and many farmers own motorbikes and pick-up trucks, which they purchased on credit. On the other hand, the fishermen that were interviewed seemed much poorer, living in very simple housing and owning much less.

2. Urban setting

In Bangkok, two locations were chosen for the FGDs: Kloeng Toei and Saphan Kwai. Both neighborhoods host low-income households (LIHs) by Thai urban standards. Saphan Kwai is a slum, while Kloeng Toei is located on Port Authority Land and offers ‘community’ housing.

The participants represent a variety of occupations: drivers (tuk, mototaxi), vendors, maids, scavenger, laundry business, workers and more. All of these activities are common in large cities. They mentioned the precariousness of their work as well as the seasonality of their income: for most self-employed individuals, the rainy season corresponds to a lower income period (there are fewer clients for transportation and outdoor sales, mobility of carts is more difficult, and there are fewer work opportunities). Despite having income levels that are greater than those found in the rural areas, respondents often mentioned the difficulty they face in paying regular expenses (THB 10,000, USD 320, per month was reported as a minimum) and some had to have two jobs to support their families.

The income levels mentioned by the urban participants is summarized in Table 19:

Table 19 Urban participant income levels

	Lower range	Higher range
Bangkok	THB 200-300 (USD 6.5-9.5)/day	THB 500 (USD 16)/day – THB 12,000-13,000 (USD 384-416)/month Max. THB 30,000 (USD 960) (mototaxi)

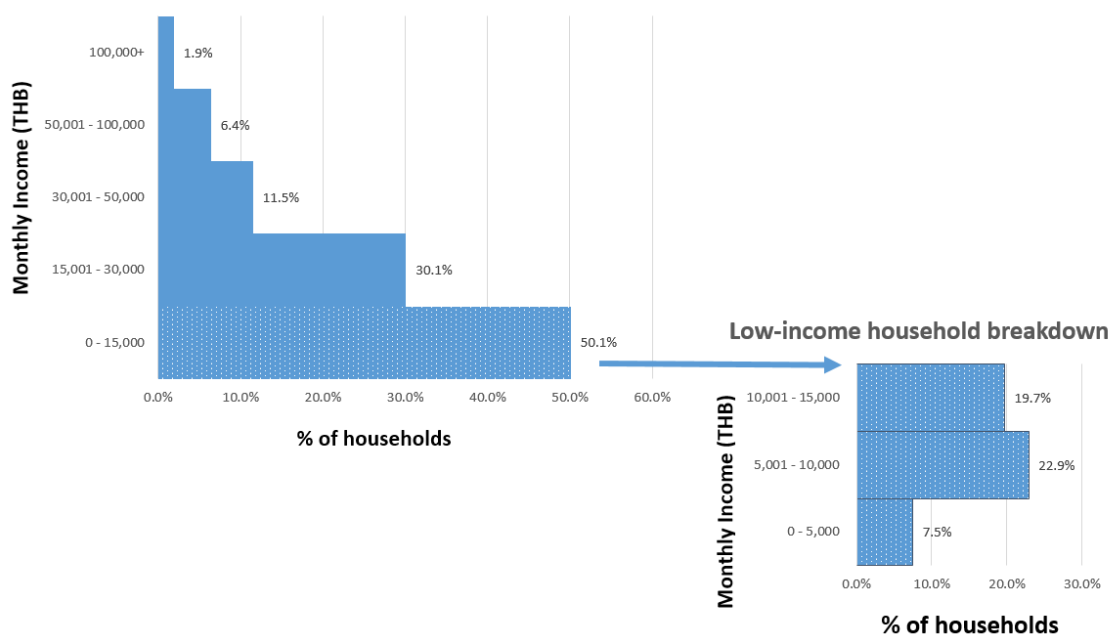
Urban households mentioned sending remittances, when they can, to support relatives in the rural areas. People often have ties or own land outside Bangkok.

It is to be noted that the only illiterate people met during this research were female members of the Saphan Kwai community.

3. Socio-economic groups

If we compare these income levels to the national figures, we notice that the participants belonged to the lower-middle class, not to the poorest segment of the Thai population. They correspond to the underserved population which microinsurance products should target. See Figure 14.

Figure 14 Household monthly income distribution (2011)⁹⁰



C. Risks faced / perceived

In order to bring up the risks which the population in each area faces, we first discussed income-generating activities with participants, followed by savings options, and finally the need for cash when emergency situations arise.

There were differences in actual risks as well as perception of risks between rural and urban settings. The reported risks are listed below for both location types⁹¹.

1. Risks and associated costs in rural areas

The risks spontaneously mentioned by the rural communities interviewed include, in no particular order:

Disability and accident: respondents mentioned the costs related to treatment as well as the loss of income for the household as a consequence of an accident (e.g. road accident, accidents due to machinery)

“For normal accident, if we have no savings: we need to take a loan which starts from 3000-5000 Baht (USD 96-160) or even 30,000 Baht (USD 960)” (Surin Province, Farmer)

Damage to property: damage to housing and property was not widely reported except by the coastal residents and the slum dwellers, for whom housing is precarious and puts them at risk of loss of property during the rainy seasons and storms. Boats, which are the daily means of income for fishermen, were the only property that seemed to be valuable and when lost or damaged would result in hardship for the fishermen’s families (e.g. engine problems may cost THB 10 to 2000, USD 0.50 to 64, to fix), as it prevents everyone from working and earning money.

⁹⁰ National Statistical Office. 2011. *The Household Socio-Economic Survey*. Table 4

⁹¹ It should be noted that the projection to hypothetical situation was not easy for respondents at first.

Death of household member: the compensation of loss of income was mentioned as a financial risk for the household if one earning member dies. Unlike in other countries, people did not seem worried about education costs after such event. This is likely because education is virtually free in Thailand until the university level.

Funeral: ceremonies are expensive for the Buddhist population. Respondents reported that a minimum of THB 100,000 (USD 3,200) is required for the related food expenses and the religious ceremony held at the temple. In contrast, the Muslim respondents in Nakhon Si Thammarat province experience lower expenses for funerals, which take place the day after the person passes away. Immediate expenses of the families only include clothes of the diseased and a contribution to the mosque; these expenses were reported as THB 10,000 (USD 320) in the community visited.

Agriculture: Farmers mentioned weather as a risk to their crop as well as price risk. Farmers near Surin and Nakhon Si Thammarat were asked about their production cycle budget. In Slaeng Pan (Surin), two groups shared income and expenses for one rai of paddy as shown in Table 20.

Table 20 Rice income and cost estimates

Costs of production	Income from production
Input, wages and transportation: THB 2000-2500 (USD 64-80)	Good year yield: 600 kg Average/common yield: 400 kg Very bad yield: 300 kg
	= Income: THB 10,000-15,000 (USD 320-480) depending on market price and quality obtained
	Profit: THB 7000-12,000 (USD 224-384)

While rice still represents the most common farming activity, poultry, rubber, vegetable production and livestock rearing are also common among low-income rural households, as shown in Table 21. Moreover, 6-8% of the respondents are involved in fishing (wild catch) activities.

Table 21 Low-income household involvement in agricultural activities

Household Involved In Agricultural Activities	Total	Under THB 3,000	THB 3,001 to 6,000	THB 6,001 to 10,000	THB 10,001 to 16,000	THB 16,001 and above
Regular Rice	27%	38%	31%	18%	11%	9%
Sticky Rice	19%	24%	25%	13%	8%	4%
Chicken/ Duck	11%	14%	13%	7%	5%	6%
Rubber	10%	8%	8%	12%	13%	11%
Vegetables	8%	7%	10%	5%	4%	2%
Cattle/Buffalo (Meat)	7%	10%	11%	4%	4%	2%

Health issues: All respondents benefit from the government's Universal Cover Scheme (UCS) commonly called the "30-Bhat" (USD 1) scheme⁹². They therefore incur limited expenses to access healthcare. However, they lose income when someone in the household needs to be accompanied to the hospital, and medicine and transportation may represent additional costs. Some respondents also perceived the services corresponding to the 30-Bhat scheme as of inferior quality to those of the social protection scheme/payroll benefits.

"People here work in agriculture. When it comes to illness, there is a high cost for treatment and [we] cannot work." (Chainat, Rubber Farmers)

2. Risks and associated costs in urban areas

The FGD participants in Bangkok mentioned the following risks and made comments on their impact:

Accident: Traffic accidents were the main potential risk mentioned.

Death: Respondents felt that it would be very difficult for the widow(er) to compensate for the loss of income in the household.

Loss of job: For the semi-formally employed, such as the maids, and for former workers, job loss was considered a risk. Respondents shared that it takes time to find a job, especially for the older community members who are less trained.

"It's hard to find new job. People have low education." (Saphan Kwai, Bangkok, Maid)

Illness: The 30-Bhat scheme does not imply that there are no costs for the beneficiaries. Urban respondents said they still incur several costs, including transportation, medicine, X-rays or tests and lost wages (of the ill person *and* the caretaker). Quality of care received through the 30-Bhat scheme was also subject to comments, both in Kloeng Toei and Saphan Kwai. Respondents mentioned as well that some treatments are not covered, and that chronic illness may require frequent trips to the hospital and/or expensive medications.

"The medicine outside system is an extra cost from 30 Baht scheme." (Saphan Kwai, Bangkok, Driver)

"30 Baht scheme gives only cheap medicine, if want to heal faster, you need to pay more for better medicine." (Saphan Kwai, Bangkok, self-employed)

Damage to property:

Moto-taxi drivers own their vehicles and face the risk of theft and collision damage, plus maintenance. These damages may be expensive but remain infrequent.

Tuk-tuk and taxi drivers rent their vehicles, and they are bound to reimburse the owner for any damage on the vehicles from their own wage (ex. THB 100/day, USD 3/day).

During the rainy season, slum dwellers reported damage to their houses and belongings, but Kloeng Toei high-rise dwellers did not rank property risk as important.

"We can repair [our houses] ourselves" (Saphan Kwai dweller)

⁹² The UCS has been offered over the past 10 years to all Thai citizens who are not covered by social security because they are not formally employed. The beneficiaries can access public facilities by contributing THB 30 (USD 1) per access to the healthcare facilities. The UCS cover includes all medical fees and essential drugs.

Theft was never mentioned as a risk except with motorbikes.

Funeral: Costs mentioned ranged from THB 50,000 to 100,000 (USD 1,600 to 3,200) for a Buddhist funeral held in Bangkok.

3. Risk priorities rationale

The question of prioritization of risks was asked in two steps: spontaneously mentioned risks were ranked first, and then risks mentioned by other groups were added to the list. During both stages, the participants were asked to rank the risks (each written on a separate card), agree on the ranking among themselves, and then explain why they had put the risks in that order.

The cards used for the exercise are shown in Table 22 and Figure 15.

Table 22 Risk cards used during ranking exercise

Illness episode (surgery/hospitalization/ out-patient)	Damage to household property, vehicles or boat	Life cycle events: retirement
Disability of a household breadwinner	Damage to production/business tools	Job loss
Death of a household breadwinner	Crop failure, Market price	Funeral
Chronic Illness	Livestock loss	Accident

Figure 15 Photo of risk cards used during ranking exercise



4. Ranking Results and Rationale Analysis

The complete rankings are displayed in Appendix 6.

The risks that came up as the most important to people were those linked to income-generation, either impacting the ability of the breadwinner to work (accident, extended illness, job loss for semi-formal employee) or damage to vehicle/shop that would prevent people from working.

The perceived likelihood of occurrence and the currently-available coping mechanisms were the most important criteria when ranking the different risks.

For example:

Accidents and disability were often in the highest positions, as they appeared impossible to prevent or prepare for, especially in Bangkok. The consequences in terms of healthcare and loss of wage may be high, and despite low probability, in the event of loss, participants only have very costly options available to mobilize significant amounts of money.

“Serious illness and disability are in the same rank since both of them cannot work.” (Slaeng Pan, Surin Province, Farmer)

Short-term illnesses, on the other hand, may be more frequent, requiring visits to the hospital or doctor, but costs incurred are limited to transportation, medicine and loss of wages and are financed through short-term loans.

Death of a breadwinner typically did not rank high in the list, but respondents would still mention that it would be difficult for a widow(er) to compensate for the loss of income in the household. Ranking and comments did not match for this risk.

Damage to property and old-age inactivity are bound to happen and require funding; however, coping mechanisms are available and these risks almost always ranked very low in the list.

“For retirement, people have son and daughter to take care of them. Some have savings and retirement fund: Taweessook is 1,200 Baht (USD 38) per year and will get 300,000 baht (USD 9,600) when they retired.” (Surin Province, Farmer)

Surprisingly, farmers having other sources of income did not list loss of harvest as a main concern. Their reasons include:

they already had alternative or second jobs,

they had diversified crops in some cases (especially in Nakhon Si Thammarat),

they received the support from government (though delayed),

they could get their BAAC loan rescheduled

it was never ‘that’ bad

they could sometimes replant

the frequency of bad harvest was not high, and the risk did not occur “every year” and that “next year will be better” (Surin Province, Farmer)

they use their savings (livestock)

“We need to do extra job like planting other crops and raising cattle to cover other expenses.” (Slaeng Pang, Surin, Farmer)

Finscope data shows that most respondent involved in farming activities also rely on other income-earning activities:

Household Situation In Past 12 Months	Regular Monthly Income					
	Total	Under THB 3 000	THB 3001 to 6 000	THB 6001 to 10 000	THB 10 001 to 16 000	THB 16 001 and above
Involved in farming only	19%	25%	17%	10%	9%	9%
Farming and other work	30%	33%	35%	28%	22%	19%
Farm worker	4%	6%	9%	4%	2%	1%
Not involved with farming at all	47%	36%	39%	58%	67%	71%

Yet 30% to 40% of the farmers earning less than THB 6000 per month are the most vulnerable as they are only involved in farming activities.

The price risks were mentioned by respondents during the FGDs and the Finscope respondents rank this risk as one of their main challenges: ranked first by 28% of the respondents.

The only notable difference in ranking by age group or gender was that women and older people may consider illnesses (episodic or chronic) as more of a priority than accidents and disability. But overall the rankings do not seem to differ greatly by gender or age. Occupation may be a greater determinant of people’s ranking: low-skilled workers in Bangkok have few options for jobs and are concerned about not being able to work for long periods of time.

When considering the coping mechanisms available to them, the respondents took into account the match between amounts available to cover the incurred costs as well as the time required to mobilize these amounts of money.

The rankings may be summarized and illustrated in Table 23 and Figure 16.

Table 23 FGD ranking of perceived risks

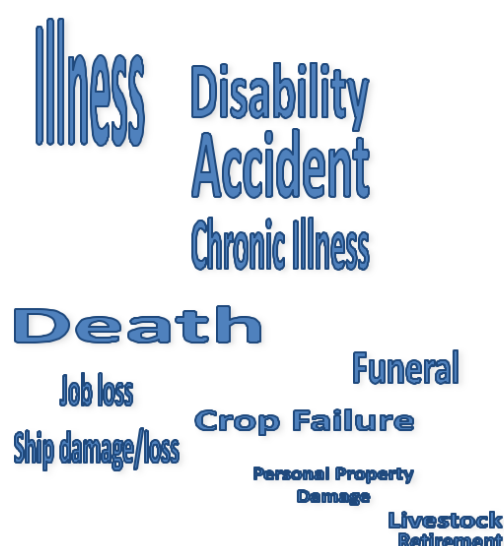
<i>Risks in order of decreasing importance⁹³</i>	<i>Most common rankings (out of 8 to 12⁹⁴)</i>	<i>Who and Why (profile and criteria mentioned)</i>
Illness	1 to 3	Most groups, as despite the UCS, LIHs face additional expenses and lost wages when accessing healthcare.
Accident	1 to 4	Impossible to prevent – depends on severity. Not all groups ranked it high.
Disability	1 to 4	Requires caretaker and results in loss of income. Mostly ranked high by urban groups.
Chronic Illness	1-2 and 4-5	Constant financial burden – varied perception by groups.
Death	1 to 6	Requirement for alternative or additional source of income.

⁹³ All groups provided different answers, and this overall ranking reflects the perception of the researcher based on groups’ input.

⁹⁴ Based on number of risks retained by groups

Loss of productive asset or job	1	Varied perceptions. Ranked first for fishermen without economic alternative. Concern for older urban low-wage workers.
Crop Failure	3 to 5	Most farmers rely on different crops, a 2 nd job and other sources of income. Government support mentioned.
Funeral	7	Most groups. Existence of coping mechanisms, expected expense.
Damage to Personal Property	5-6	Most groups. Self-reliance for repair and low expected frequency.
Retirement	8-10	No retirement expected. Support from children and old-age government scheme.
Livestock	8-11	Only used as savings in rural areas. Low incidence of disease/death of cattle.

Figure 16 Relative importance of perceived risks



D. Current coping mechanisms

While respondents are exposed to various risks as outlined in the previous section and have little access to formal insurance mechanisms, the communities have alternative coping strategies. For each of the risks described above, the FGD participants were asked how they cope with the financial losses resulting from the risk.

Considering the differences in social ties and context, the coping strategies differ most by urban/rural setting and are therefore presented separately.

1. In rural areas a. Community

“Here in rural communities, everyone has to take care of each other.” (Surin Province, Farmer)

The main support for the hardship when a risk hits a rural household is the community support - ค่าเลี้ยงหน้าชา - kaa-lieng-naam-cha - which takes different forms:

Donations are made by the community members for funerals in particular, as this event corresponds to several months of income for a family and savings are not sufficient to cover the costs of funerals (THB 100,000, USD 3,200, was commonly cited).

The Muslim tradition encourages contributions - ซะกาต- **sa-kad** - when someone in the village passes away. The masjid also offers support to the family, as amounts are contributed in advance (Ex: *In Pak Panang, each household contributes THB 50, USD 1.50, to the masjid fund for funeral, and current funds available reached THB 10,050, USD 322*).

“[We] get money from Masjid for everyone who passes away”. (Muslim community, Nakhon Si Thammarat province)

In addition to donations, **relatives and community** members provide **loans** (with and without interest) to the household in need for a several thousand THB.

Finally support from **children** was the main source of income for the old-age, and respondents simply said they never retire and keep an activity “until they drop”.

Rural groups have mentioned that “everyone has to take care” of each other.

b. Savings

Community support complements the savings for funerals, for example, and comes as a top-up. Respondents also mentioned drawing from savings as a coping mechanism for all risks (if they had managed to accumulate some savings).

“One part of income we save it for next agriculture cycle, another [part] for raising cattle. If we have pig, we sell pig, no more pig, we sell cows. No more cows, sell fish or chickens.” (Surin Province, Farmer)

Savings may take the form of cash available at the bank, but differences exist by income level and actual use of formal banking system.

Communities also often have ‘Savings Funds’ to which members provide regular deposits. These funds can be used when a member has a financial crisis.

In Surin, respondents shared that they sell **livestock** and even land when they need a large amount of cash. People consider livestock, when purchased young, as an investment with increasing value. Livestock is thus purchased as a savings and investment mechanism: respondents find it less liquid than bank savings and thus are less tempted to waste their savings. Livestock sales were reported in cases of death, serious illness episodes or temporary disability.

Finscope data supports these response from FGD participants

“The emergency money will come from savings then sell cattle then land.” (Slaeng Pan, Surin, Farmer)

81% of FINSCOPE survey respondents say that their household will sell some of its livestock to get cash when they need cash.

Some respondents mentioned that more critical situations may require them to sell their land.

Rotating Savings and Credit Associations (ROSCAs) were mentioned in one fishermen community.

In case of death of a breadwinner, respondents noted that the spouse has to work extra to help mitigate the household income reduction. Fishermen mentioned that women would, for example, have to sell fish at the market if their husband passed away or could not work for a while. Additional jobs seemed a common coping mechanism in the rural areas visited.

c. Informal ex-ante mechanisms

Besides the ex-post solutions described above, villagers have developed funds to which each family contributes, sometimes in cooperation with external agencies or organizations. The most common are (in the districts and communities where they exist):

The **Welfare Funds**: these funds are composed of contributions of THB 1 (USD 0.05) per day, and the corresponding benefits offered to their members are defined by the saving members in cases of death, sickness, birth, education and old age.

Emergency **loans** are available from **community banks** (Loan amounts were mentioned up to THB 30,000, USD 960, at 2-3% interest a month.)

“Housewife fund” กองทุนแม่บ้าน Kong-thun-mae-baan

Although Funeral Associations are common and reach large numbers of rural Thais, there were no Funeral Aid Associations (FAA) members among people met.

d. BAAC

Farmers mainly mentioned two strategies that were specific to this segment:

Farmers have access through **BAAC** to credit and insurance products. They shared that:

Any land-owner is allowed to have access to a loan up to THB 50,000 (USD 1,600) without pre-conditions. They may therefore procure loans for non-production purpose, as long as they own land and use it as a collateral. (Farmers reported that up to 50% of their land value may be availed as a loan).

FINSCOPE survey results indicate that only 18% of respondents finance their agriculture activities through BAAC loans. This means that 80% of farmers do not have access to BAAC financial services including credit, savings and insurance.

A few people interviewed mentioned the life-savings product Taweasuk, or its prior format Taweechoke and Taweessin (described in the supply report), contributing around THB 1,200 (USD 38) per year.

FGD participants noted that they were covered by Credit-Life products (details of cover were unclear for most participants) for their loans with BAAC.

Farmers all mentioned that they used risk mitigation strategies for their income and agriculture production:

Multi-cropping was widespread in Nakhon Si Thammarat, with farmers cultivating paddy and fruits, for example, and owning small rubber and palm oil plantations. This provided income during different seasons.

Suring respondents, on the other hand, reported having several jobs (almost no farmer met was working only at farming).

e. Government

Farmers mentioned that in extreme cases of natural disaster or major crop failure, the government would provide support, but that this support was not timely and may not always come much after the harvest season when they would have cash constraints (and when they have to repay loans and pay wages). Loans may also be rescheduled in case of bad harvest. Not all farmers were said to be eligible for these types of support.

Besides BAAC, rural respondents were very familiar with:

The 30-Bhat scheme as their health cover. This was always mentioned by the participants. Based on FINSCOPE data, 86% of respondents earning less than THB 6000 per month access public healthcare services when seeking medical treatment.

Old-age allowance provided by the government for elder members (THB 600-800, USD 19-26, per month)

f. Credit

When no other option was available and the need for cash was pressing or the amount higher than what the community may be able to support, the respondents said that they had to turn to **moneylenders**. The rates mentioned varied from 7% to 20% per month. This solution seemed more common in communities which had not organized a community bank or welfare fund. The only positive points mentioned by respondents about moneylenders were that they could procure the money quickly and in larger amounts.

“To find profit from putting money in the bank to gain interest is against our religion but we seek for a loan because it's crucial though it's not right.” (Sichon, Nakhon Si Thammarat, Muslim Community)

Farmers did not avail credit at commercial banks despite their lower interest rates, as processes are slow and it is difficult to obtain a loan even with a collateral.

g. Insurance

The only insurance (beside BAAC credit-life and Taweasuk) mentioned was Personal Accident insurance (Viriyah insurance), and only by very few people.

Finally, other than BAAC, no mention was made of pawn shops, microfinance institutions (MFIs) or State Financial Institutions (SFIs), including the Government Savings Bank (GSB).

Usually respondents mentioned a combination of coping mechanisms to address their financing needs in case of emergency. In the Surin province, a group of women mentioned the following example of financing options in case of death, covering expenses of around THB 100,000 (USD 3,200) for the 2-3 days of funeral ceremony:

One can get a loan, formal or informal

The community bank can lend up to THB 30,000 (USD 960) at an interest rate of 2-3% per month

The community leader may support families by lending money as well, and at a low interest rate

Some people have insurance

The moneylender lends at 7-10% per month but requires collateral (a property asset)

A 2nd job (e.g. in the silk industry) may be required to repay these loans, and it can take up to one year to reimburse the borrowed amounts

2. In Bangkok

The mechanisms in Bangkok are not as community-oriented as in rural areas, and despite the density and proximity of financial companies in the capital city, the urban population did not seem to be able to leverage their services.

a. Community

Similar to the rural participants, low-income respondents in Bangkok mentioned relatives, friends and neighbors' support for smaller amounts, through loans.

Some people take part in informal saving mechanisms such as the "1-THB-a-day" funds.

In Kloeng Toei, a community bank was set up with the support of CODI; therefore people had access to more financing options than in the Saphan Kwai slum.

Funerals are also supported by the community through contributory funding.

b. Credit

The urban population seemed to rely more heavily on credit in case of cash emergencies:

Loans from a loan shark or from friends and neighbors are common for recurring small cash needs. Credit from the local shops is also used when income is lacking, as people seemed to save very little. These are reported as simple, fast processes that do not require any signature but come at very high costs.

When savings and community funds are insufficient to finance larger amounts in case of illnesses or funerals, for example, people also resort to loans. The interest rate may be very high: for the community living in Saphan Kwai, the **moneylender** applies a 20% interest rate per day (while in Kloeng Toei this rate was a monthly rate).

"Working like this is a day by day earning. It's impossible to get a loan from the banks." (Saphan Kwai, Bangkok, Tuk driver)

The **pawn shops** are also used to avail cash in exchange for belongings such as TVs, gold, or cell phones.

In urban areas, some formal mechanisms are a bit more common than in rural areas:

Some participants had access to **social protection** programs through their work, and some (though very few) respondents enrolled voluntarily in some of the government schemes (such as the Article 40 scheme described in the Supply paper).

Some participants had private **insurance** (e.g. personal accident, PA, for their mototaxi), which they purchased directly from the insurer or through debit cards of banks such as Siam Commercial Bank (SCB) or Krung Thai bank.

As with the rural population, all respondents were enrolled in the **30-Bhat scheme** for healthcare access.

E. Financial literacy and perception of insurance

1. Concept

In comparison to other countries and populations, the FGD respondents in Thailand were familiar with the term “**pakan**” (“insurance” in Thai). However, there was some confusion between social protection/government support and insurance. Similarly, the premium and benefits were not clear concepts for most of the participants (but issues with terms and names of the different funds were noted by the researchers). Health insurance, life insurance and PA insurance were the most commonly cited types of insurance during the FGDs. **Most of the respondents admit that they need to get more information about insurance.**

LIHs are aware of major insurance companies, even if they do not have insurance themselves. Some names of companies seemed well-known in almost each location: AIA, Thai Life, Muang Thai, Viriyah, and Ocean Life Insurance.

2. Perception

Although insurance was not a completely foreign concept for the FGD participants, their opinion of insurance was not positive overall. The most commonly cited issue or reference was fraud experienced by others. In particular, fraud by agents on premium collection was one of the problems raised.

Insurance is also often considered as inaccessible for the participants, who highlighted that it is difficult to continuously pay premiums and that premiums are too expensive. Some understood that “premium is proportional to cover,” indicating that products have inappropriate coverage levels for them and are therefore too expensive. Others highlighted that a lack of grace period is a challenge (urban respondents all declared having seasonal income and that saving is challenging for them).

Participants complained that they knew people who had insurance and whose claims did not get paid. Many mentioned exclusions and unfairness, as well as the complex documentation that was required, all seeming to keep them from benefiting from insurance. There is a clear trust problem toward insurance companies and their agents. The idea of possible fraud and fear of being cheated were prevalent among participants.

“There was an agent from insurance company [who] came to collect money but didn't send money to company. [We] don't want to be cheated anymore.” (Saphan Kwai, Bangkok)

Cultural barriers did not seem as common as in other countries. However, some respondents mentioned that “one could not benefit from someone's death” and that purchasing insurance may result in the actual occurrence of the risk. In the Muslim community, some said that they “should not get wealthier” through insurance; however, respondents do not know much about insurance and are fine with high moneylender interest because there is no other option available to them.

Additionally, perceived need for longer-term planning is low, as the ranking for retirement demonstrates.

3. Access to Formal Financial Services

In Bangkok, some participants had compulsory **insurance** (mototaxi (PA) and drivers (Third Party Liability, or TPL)). Insurers' branches were present in the small towns visited (Muang

Thai, AIA), but only a few of the FGD participants had any private insurance, whether life, health or endowment products.

In urban areas, people seem to have access to **bank** accounts but barely save formally and use their bank accounts simply to receive government benefits. In rural areas, only the wealthiest had access to private financial institutions.

In Bangkok (Saphan Koei only), some of the participants had some knowledge about the **Social Security Art. 40** voluntary program, but misunderstanding about costs and benefits remained (some knew from previous jobs that they could keep paying, others had met a government staff from Ministry of Labour who told them about the benefits, costs and enrolment process). The cost of Art. 40 (even if only THB 100-150/month, USD 3-5/month) remains perceived as expensive, and some people think the 30-Bhat scheme already covers them for accident (which means they do not understand the cover benefit).

Even formally employed people say that because of job instability they are unable to get continuous covers. They mentioned a 6-month waiting period which prevents people with unstable jobs or low ability to pay from being covered by the government social protection schemes.

F. Other challenges to managing risk

Beside the financial issues which result in hardship for their households, participants mentioned other challenges that prevent them from either accessing services or finding solutions to address the risks they are facing:

Mistrust of insurance agents: enforcement and control of agents is required, both for insurance and banking services.

Ineffective local government support: the delivery of planned schemes and information related to the schemes the population is entitled to is lacking.

The lack of irrigation system in both Nakhon Si Thammarat and Surin provinces was a concern for all paddy farmers.

Without effective implementation of government policies, the population is left with increased vulnerability and very few options for managing risk.

G. Vulnerabilities and protection gaps

1. **In rural areas**
 - a. **BAAC**

A potentially large number of farmers could be served by BAAC. However, a few barriers remain for farmers to have access to insurance:

Land titles are required to access loans from BAAC, and thus to have access to the range of insurance products offered through BAAC. In Nakhon Si Thammarat, our local contact assessed that 20% of farmers do not own land; they therefore remain excluded of all access to BAAC-linked financial services.

Only 20% of FINSCOPE survey respondents reported financing farming activities through BAAC loans, therefore the potential outreach of BAAC for financial products other than credit is limited by the eligibility and definition of BAAC credit clients.

Although BAAC is a partner of several insurance companies, it does not seem to promote the products which are supposed to reach the farmers:

There were no insurance leaflets or other insurance information at the BAAC office in Surin and participants had no knowledge of their various products. In Chainat the BAAC borrowers were better informed, as BAAC staff had shared insurance information.

No farmer met mentioned that BAAC employees talked to them about insurance (beside the credit-life cover).

In rural areas there is no equivalent SFI for fishermen who remain excluded from all financial service provision, while low-income non-farmers have no dedicated/alternative access to tailored insurance products.

b. Community banks and welfare funds

Informal coping mechanisms seem to offer some important benefits to the community members who contribute to them. But not all communities have leaders or trained members to set up and organize such financial tools. In the communities where no village fund, community bank, or welfare fund was available, the only recourse was credit, and the wealth of the people seemed strikingly low.

In one of the communities visited, the community bank stopped operating, as members were not contributing regularly, and all members required funding at the same time. These funds require good governance and discipline from the members – which is difficult at lower income levels and with limited financial literacy. They also do not address covariant risk and leave villagers little choice but to seek additional income or to become indebted when a risk hits the whole community. The ability of these community based insurance funds to sufficiently assist their members has been rather weak in Thailand.

c. Government and financial services

Although some insurance services do exist (refer to the supply report), the provision of both private and government services is sub-optimal in the rural areas. This is due to several factors including:

Distances to service points may be too great.

Fraudulent agents were mentioned in all rural locations, as supervision is limited and verification of payment, enrollment, or accreditation of agents is impossible.

Knowledge of crop insurance is non-existent for a vast majority of farmers interviewed. They generally confuse crop insurance with relief from government.

No outreach is organized to sensitize the rural population with existing schemes such as agriculture insurance or Art. 40.

Paddy and maize have been the only 2 crops for which insurance schemes have been developed while Finscope data shows that farmers, especially among the poorest, have other farming activities and crops.

BAAC “is the only way to get insurance” and BAAC loans require collateral (preventing landless farmers from accessing any services).

2. In Bangkok

In Bangkok, community organization may not be as strong in all low-income neighborhoods and communities. If there is no community bank or affordable credit, all surplus of income goes into repayment rather than savings, and thus households have no available cash to pay for premiums. They are faced with **loan sharks** who apply usurious interest rates.

Unlike for farmers, and despite the proximity of financial companies, SFIs and private financial institutions, there are fewer tailored options for urban dwellers. Poor households do not seem to access GSB services as much as farmers access BAAC services. As in rural areas, no outreach activity is organized to inform low-income urban households of the benefits of existing public and private insurance schemes.

In addition, the ability to pay is very low and often seasonal for the poorest groups. In particular during the monsoon, the population bears a greater exposure when the self-employed have little or no income. Government schemes do not take this seasonality into account. The precariousness of and changes in the economic life of urban dwellers seemed greater than for rural populations, leaving them with more uncertainty in their ability to commit to payments.

In both urban neighborhoods visited, respondents were not fully satisfied with the 30-Bhat scheme (in comparison with services offered to formal employees) and would be ready to pay extra to get better treatment and benefits.

H. Conclusions and recommendations

The Ministry of Finance and the Office of the Insurance Commissioner should undertake joint efforts around four main objectives.

1. Maximize current supply and distribution opportunities

The microinsurance already offered in Thailand takes various forms: from semi-formal community funds to commercial products offered through SFIs. With a population whose income has increased, the potential to increase the insurance penetration is considerable. As a first step, the Thai government needs to ensure that current products actually reach their target population effectively and efficiently:

BAAC should do a better job at informing the borrower members. This institution has a large outreach, both volume-wise and geographically. It already has partnerships with commercial players and its staff should be able to share information relative to microinsurance products (life and agriculture).

The Thai government has attempted to extend the social protection system to the informal sector. Yet low-income households are seldom aware of the existing schemes. Better information on government schemes available to LIHs and better targeting of the LIHs who will not be reached in the short-term by commercial insurers is required.

Insurance may be perceived as expensive for the poorer segment of the population. Some clusters of population remain underserved by semi-formal and formal credit systems. Community bank and microfinance services development should be supported in all provinces, as they are the first step to avoid recourse to usury services which keep the population in poverty and prevent savings and access to other financial products.

The GSB, the Islamic Bank and the Small and Medium Enterprise Development (SME) Bank do not offer products suitable for LIHs and the middle-class. They should be used to reach the middle class in order to push the insurance access frontier.

2. Increase distribution options and improve product adequacy

The products reviewed during the supply analysis and the actual target population show that the Ministry of Finance (MOF) and Office of Insurance Commission (OIC) should review the regulation and the superintendent's process to ensure that appropriate products are distributed in an adequate and optimal manner to segments currently uninsured:

The commercial products reviewed are not tailored by private players to match the needs and specificities of the low-income population and of a population with little experience with insurance. Therefore OIC and MOF should consider:

Modifying the regulation and product review process to ensure that adequate, simple products are offered.

Supporting insurers which have professional staff but need to be trained on microinsurance product development and best practices.

The rules on distribution channels should be reviewed to ensure that all suitable distribution channels are explored and that providers take advantage of them to reach the largest number of people possible.

Risks for which demand has been identified include: health, death (natural and accidental) as well as disability. Some of these are thus probably unaddressed by the current public schemes, and covers should be offered by public schemes to the poorest while the above the poverty line population should have access to privately-developed adequate covers (such as hospital cash or term-life covers).

3. Review the regulation to ensure effective information

Some aspects of the regulation may be improved based on the feedback of the target population interviewed during the demand research:

The demand research shows that the population accesses various providers of financial services: Credit Unions, Microfinance Institutions, non-governmental organizations (NGOs), retailers as well as the SFIs. They fall under different regulation frameworks and different ministries' scope of jurisdiction. The government should ensure that all regulators coordinate their efforts.

Trust towards insurers has been impacted by the fraud which has occurred, mainly on the premium collection process by individual agents. This should be addressed if trust is to be regained. Both prevention and enforcement of regulation are required to achieve this goal.

One additional trust-building mechanism would be to make information and complaints services available through an ombudsman and a free information line for all Thais (not only for microinsurance target population). Such a number could be displayed on all insurance documents (leaflet, policies, certificate of insurance, etc.) to provide recourse to the population, especially in rural areas, as insurers' offices are not easily accessible.

4. Foster an insurance culture

Most respondents have mentioned their lack of knowledge about insurance products and mechanisms. Some financial education activities may be considered as part of the education system (similar to the South African effort in high schools), with a larger goal of reaching both low-income and middle-class Thais.

V. MICROINSURANCE REGULATIONS

A. Objectives, regulatory context and environment

The objective of this paper is to **inform efforts to develop an inclusive insurance market in Thailand through regulation and supervision**. Our efforts follow the framework established by the International Association of Insurance Supervisors (IAIS) for understanding what constitutes an “inclusive” market and how it can be supported. Inclusive insurance markets are

“affordable;

sustainable;

convenient; and [with]

responsible delivery by licensed and supervised insurers, and [a broad array of] intermediaries.” (IAIS, 2012).

Through the sections that follow, we summarize the current regulatory framework relevant to microinsurance in Thailand (including (micro) insurance and other regulation) and analyze the implications of the current regulatory context for the development of inclusive microinsurance markets. This analysis relies heavily on lessons gleaned from past work of the IAIS. Finally, we recommend measures to be taken to support development of an inclusive, effective, and sustainable microinsurance market in Thailand going forward.

Our analysis and recommendations are critically informed by contextual and market considerations in Thailand, in particular our studies of supply and demand factors as well as our study of the financial context of Thailand. Numerous face to face meetings with senior government and regulatory representatives, the insurance associations, life and general insurers, the State Financial Institutions, and others have added immeasurable value to the content and results of this work. A multitude of legal framework documents were reviewed to extract an understanding of the current legal approach to microinsurance.

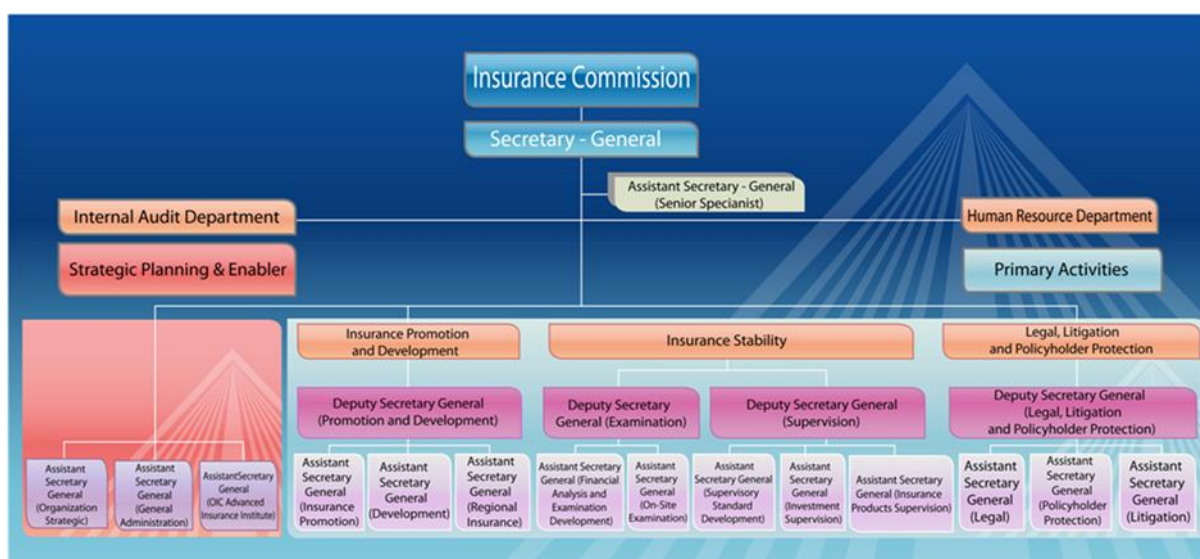
The definitive considerations of regulation and supervision of microinsurance are currently found in the document: “Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets” (IAIS, October 2012). This document is used, and its specific points referenced, extensively throughout this regulatory review (cited as “IAIS” throughout this document). The Application Paper reflects the IAIS approved considerations for the inclusive insurance markets and provides a solid base for comparison to the current Thai legal framework.

1. Institutional landscape

The **Office of Insurance Commission** (the “Commission”) is the key regulatory and supervisory player in the microinsurance market in Thailand.⁹⁵ The Commission is led by a **Secretary General** (referred to as the “Registrar” in some legal documents), who oversees divisions for the various functions of the Commission (see Figure 17).

⁹⁵ The Insurance Business Regulation and Promotion Commission Act BE 2550 (2007) transformed the Department of Insurance from a government agency into the Insurance Committee (now called the Insurance Commission), an independent newly devised administrative organization.

Figure 17 Organizational structure of the Insurance Commission



Source: <http://www.oic.or.th/en/about/orgchart.html>

The Commission acts under the supervision of the **Ministry of Finance**, which is charged with enforcement of the insurance laws. The Commission has “powers and duties to lay down policy, regulate, promote and develop insurance business,” including (among others), the powers to:

lay down rules, procedures, conditions and best practices for the carrying out of insurance business for compliance with international standard;

determine rules, procedure, conditions and guidelines for the regulation, promotion and development of insurance business; and

give recommendations on issuance or revocation of insurance licenses (Insurance Business Regulation and Promotion Committee Act B.E. 2550 (2007), Sec. 12).

Within the Ministry of Finance, responsibility for establishing insurance policy falls under the **Bureau of Financial Protection Policy** (the “BFPP”), which is a unit reporting to the FPO. The BFPP, among other functions, is responsible for advising and formulating policies, plans, and measures (1) to promote and develop an insurance system that ensures security, competitiveness and compliance with financial and accounting standards, and good governance; (2) to promote protection of individual’s entitlement in insurance contract and to provide income security to people through insurance. The BFPP is also responsible for monitoring the insurance market and coordinating with the Commission in proposing policy and regulating the insurance system so that it aligns with the overall financial sector and economic framework. The BFPP and OIC maintain a close yet arms-length relationship.

2. Policy, regulatory and supervisory context

The insurance laws and supervisory structure in Thailand underwent extensive reform in 2008, as the Insurance Development Plan Vol. 1 was implemented. A part of this reform was the re-structuring of the regulatory and supervisory bodies.

The Commission established the Insurance Development Plan Vol. 2 (2010-2014),⁹⁶ in an effort to 1) strengthen **confidence and access** to the insurance system, 2) strengthen the **stability** of the insurance system, 3) upgrade the **quality** of service and protection of policyholders' interests, and 4) promote the **infrastructure** of the insurance business (see Figure 18). The plan sets specific development measures, as well as broad and specific goals.

The plan sets forth the following **reasons for low insurance penetration** rate in Thailand:

Insufficient knowledge, understanding, and confidence of the people in the insurance system

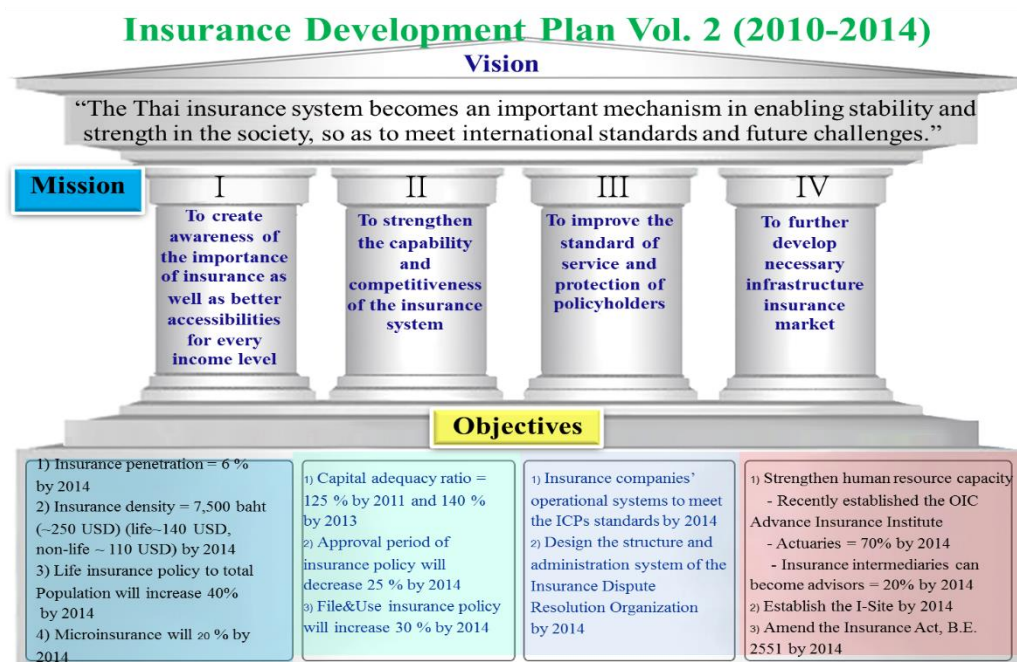
Inability of the private sector to adapt to the international supervisory standards

The structure of the Thai insurance industry

Basic structure needed for insurance development

Intense internal competition as a result of rapid change

Figure 18 Insurance Development Plan Vol. 2



Source: Overview of Thailand's Insurance Market and the Insurance Development Plan. Presented by the International Affairs Department of the Commission to The Asian Development Bank, 25 July 2011

The Insurance Development Plan Vol. 2 (2010-2014) also sets forth the four pillars shown in

Figure 18, with specific objectives tied to each. Especially relevant is item I.4, the only objective to specifically address microinsurance, though others will have an impact on, or be impacted by, microinsurance development. The overall objective is to generate access to the range of financial products for those that have no, or limited, access. This item specifies that the growth rate of microinsurance policyholders is to be 20% by 2014. Although the base year is 2010, the OIC notes the microinsurance policyholders stand at 318,934 at the end of 2012, which is a 280% increase from 2011 (see Table 1⁹⁷). Thus surely growth of microinsurance policyholders will far surpass the modest objective. The decline in non-life microinsurance may be attributable to reclassification.

⁹⁶ Insurance Development Plan, Volume II (2010-2014). <http://www.oic.or.th/en/about/masterplan.php>

⁹⁷ From an email of 25 April 2013 to the author sent by Somkuan Wattanapitayakul of the Insurance Market Development Department of the Office of Insurance Commission.

Table 24 Microinsurance policies by general type

Number of policies	2011	2012	% change
Life microinsurance	19,585	271,470	1,286.11%
Non-life microinsurance	64,212	47,464	(26.08)%
Total	83,797	318,934	280.60%

In 2008-2009, the Commission conducted a feasibility study on introducing microinsurance products in order to expand insurance availability. The study included learning experiences from other countries, seminars and study visits. In 2010, the Commission created a working group to develop a definition of microinsurance and define a “Microinsurance Product Framework.” The working group was comprised of representatives from: the Commission, the Thai General Insurance Association and the Thai Life Assurance Association. Microinsurance policies for a number of different types of coverage were subsequently approved. The interest in the market suggested by insurers taking the time and making the effort to submit products to the Commission suggests significant potential expansion of such products. However, this is not yet supported by quantitative evidence of sales. Additionally, these approved covers are subject to more lenient distribution requirements as described below.⁹⁸ Easing requirements on distribution is important to facilitate reduced administration costs, as well as in approaching potential clients in ways that are more appropriate for them, and thus more effective in providing access and in generating sales.

It is important to note that currently the market for insurance to the low and middle income population is heavily dominated by the government and government agencies. Data from the accompanying Supply Side report, summarized here in Table 25, shows the total microinsurance coverage by various providers. Note that Public Schemes and those from State Financial Institutions (SFIs) total over 55 million people covered by these schemes.⁹⁹ The Private Companies offering their products and the microinsurance framework products total a mere 2.1 million. Incidents of the government program squeezing out the private sector are commonly related by insurers. Although offering cheap covers to the population provides some level of risk protection, the government and its agencies could be more efficient if they provided cover to those who could not access commercial microinsurance because of cost. If the government were to shift some insurance covers to commercial insurers and focus more on the areas where they are truly needed for risk management, this would put the economy into a stronger position as government would reduce transfer payments, and the insurance sector would be better able to invest funds for economic growth.

Table 25 Microinsurance by type of risk taker

	<i>Public Schemes</i>	<i>Informal Schemes</i>	<i>Coop schemes</i>	<i>GSB/BAAC Schemes</i>	<i>Private Companies Products</i>	<i>OIC MI Framework Products</i>
Total	45,786,000	9,280,000 ¹⁰⁰	1,386,000	5,798,000	2,106,305	16,237

⁹⁸ Microinsurance in Thailand. Presented by the Commission to The Asian Development Bank, April 2012.

⁹⁹ Note that the people covered by the SFIs are also covered by the Public schemes, and may also be covered within other categories.

¹⁰⁰ Welfare funds offer both welfare (hospitalization benefits as well as death benefits, thus are counted twice in terms of insureds by risk but once only in the total).

3. Structure of the analysis

The remainder of this paper is structured as follows: Section 2 summarizes the relevant regulations, beginning in Section 2.1 with an overview of the insurance regulatory and supervisory framework, including institutional and corporate governance framework, product-relevant regulation, prudential regulation, regulation of sale and intermediation, as well as consumer protection regulation. Section 2.2 summarizes relevant ancillary regulations, including those related to the broader financial system, electronic transactions, cooperatives, and anti-money laundering. Section 3 draws conclusions and recommendations. Within each of the subsections below, we begin by providing an overview of the relevant regulations, which is followed by a more in-depth discussion of the specific provisions and their implications for microinsurance market development. We use the following symbols to guide the reader through this discussion: “+” indicates a strong provision that is conducive to inclusive market development, “-“ indicates a gap or barrier in the regulation, and “★“ indicates an open question or ambiguity. We end each subsection with analysis and recommended changes.

The various key components of the insurance legal framework are presented below both in terms of key insurance framework issues and microinsurance framework issues, but all are important to microinsurance, especially where the insurance or microinsurance framework either sets the stage for microinsurance or has a specific issue related to microinsurance. Generally in this paper we will consider microinsurance as a core activity of developing an inclusive insurance market. The framework is compared to: (1) the IAIS’s October 2012 “Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets” (cited as “IAIS” throughout this paper), and (2) the author’s experiences with the legal frameworks for microinsurance (and their development over time) in various jurisdictions.

Additionally, since Promotion and Development of the insurance market in Thailand is a formal role of the Insurance Commission (see Figure 17), the analysis approaches microinsurance from the additional perspective of regulator and supervisor as responsible (to a limited extent) for insurance market development.

Note that “when a ‘development mandate’ is given to the [Insurance Commission], this mandate should be explicit and subject to the same considerations as other mandates and objectives (Standard 1.2). The primary legislation may provide general support that is elaborated further in subsidiary statements (Guidance 1.2.2). These same considerations include, in particular, the importance of supervisors explaining *how they interpret and implement their objectives especially when supervisors have both a development mandate and a prudential mandate* (Standard 2.7 and Guidance 2.7.2)” (IAIS 2012, 5-6), as is the case in Thailand.

B. Regulatory framework: main characteristics

The regulatory framework includes the laws and regulations most likely to influence development of an inclusive insurance market in Thailand. Primarily, these include insurance-specific regulations, but may also include other regulations of stakeholders in insurance and of insurance-related transactions (see Table 26). A full list of the documents reviewed and relating to the legal framework is presented in Appendix 7.

Table 26 Thailand regulatory scheme of relevance to microinsurance

Category	Relevant regulation
Insurance-specific regulation	<p>Life Insurance Act, B.E. 2535. (1992), Amended by Life Insurance Act (No. 2) B.E. 2551. (2008) (the “Life Insurance Act” or “LA”)</p> <p>Non-Life Insurance Act, B.E. 2535. (1992), Amended by Non-Life Insurance Act (No. 2) B.E. 2551. (2008) (the “Non-life Insurance Act” or “NLA”, and together with the Life Insurance Act, the “Insurance Acts”)</p> <p>Notifications and Orders issued by the Commission and Registrar under authority granted by the Life Insurance Act and Non-life Insurance Act.</p> <p>Commissioner’s Orders regarding approval of various types of microinsurance policies (“Policy Templates”).</p> <p>See Appendix 7 for the full list of regulations and other legal documents reviewed.</p>
Pipeline regulatory developments and proposals	<p>The Insurance Development Plan V.2 2010-2014 notes as Item IV.3 that Amend the Insurance Act, B.E. 2551 by 2014. This may present an important opportunity to rationalize the microinsurance related legal issues such as creating a new tier for what are now the large informal insurers. It is important to note that most issues in microinsurance may not require adjustment through the law or Act, as other legal document types may be sufficient (such as memoranda which could address distribution issues, or the issue of bundling).</p>
Other laws relevant to insurance:	<p>Financial Institution Business Act B.E. 2551 (2008)</p> <p>Electronic Transactions Act B.E. 2544 (2001)</p> <p>Anti-Money Laundering Act of B.E. 2542 (1999)</p> <p>Cooperative Societies Act, B.E. 2511 (1968)</p> <p>Regulations, orders and other legal framework documents issued pursuant to the abovementioned Acts.</p>

1. Insurance regulatory framework

The insurance regulatory framework is split into two parallel sets of laws and regulations for life and non-life insurance (see Table 26). Though the rules for life and non-life insurance are generally very similar, the two types of insurance are regulated separately, requiring separate qualification and reporting, and they are supervised by two almost completely separate areas within the OIC. There are also some relatively minor differences in the rules applying to the two types of insurance, the most pertinent of which are noted in the sections that follow.

Insurance regulations generally fall into one or more of the following categories, addressed in turn in the sections that follow: institutional and corporate governance framework, product-relevant regulation, prudential regulation, regulation of sales and intermediation (market conduct regulation), and consumer protection regulation.

a. Institutional and corporate governance framework

Table 27 outlines the key corporate governance provisions that set up both the structure for insurance and that for microinsurance. Where there are implications for microinsurance market development related to the provisions these are discussed. There are no institutional or corporate governance standards specific to microinsurance; those listed below simply reflect the requirements applicable to all insurance entities.

Table 27 Main features of institutional and corporate governance regulatory framework

Area	Current provisions
Institutional form	Only private companies may be insurers; foreign insurers may operate with a license.
Ownership	Limits on foreign ownership
Corporate governance	Standard requirements regarding management and oversight, actions on behalf of the company, and share capital.

i. Implications for market development

Institutional form. Insurance Business may be undertaken only by a public limited company under the Law on Public Companies (not a private company) (LA §7; NLA §6). Foreign insurance companies may establish a branch office to undertake Insurance Business after obtaining a license, which will be granted only after a security deposit is made and assets are maintained in Thailand (LA §8; NLA §7).

– No private companies may be insurers, which may limit some potential providers.

“Limitations in the defined institutional form may curb competition, encourage regulatory arbitrage, or hinder formalization and integration of unregulated or informal providers into the regulated financial sector.” (IAIS 3.5)

Insurance is also provided through cooperatives under cooperatives legislation which is not linked to the Insurance Act. Such diversity of insurance regulators is not healthy for an insurance environment because uncoordinated rules and policies may be abused by those under more lenient policies, and the capacity of non-insurance supervisors tends to be significantly weaker on insurance matters than that of the insurance commission.

Ownership. Insurance companies must have 75% Thai ownership. Foreign persons may own up to 50% with permission of the Commission, or greater with permission of the Minister of Finance (LA §10; NLA §9).

Corporate governance. Corporate governance framework falls primarily under the Law on Public Companies, but several sections of the Insurance Acts apply, including directors (LA §10; NLA §9), authorization to act on behalf of an insurance company (LA §35, NLA §34), and share capital (LA §9; NLA §8).

ii. Analysis and recommendations

While there are no particularly burdensome limits on who may own and operate an insurance company in Thailand, the prohibition on private companies and limits on foreign ownership without approval of the Commission may limit market development, including microinsurance market development. However, there are multinational insurers operating in Thailand, and often these same insurers are those that take a lead in microinsurance

development, such as the example of Allianz in Indonesia. The corporate governance framework seems generally appropriate.

In Thailand there is a substantial diversity of “insurers” within the country. The paper that is a part of this series, “The Supply of Microinsurance in Thailand” (Tatin-Jaleran, 2013), notes that other entities taking insurance risk include: Credit Unions, the Government Savings Bank (GSB), cooperatives, and very significant Funeral Aid Associations. While the IAIS notes that not all insuring entities are large enough to warrant licensing (2.8 and 2.9), the Application Paper also notes that “All entities that act as insurers should be subject to licensing” (items 2.2 to 2.7). Thus, it may be appropriate for the OIC to consider the licensing of these additional insuring entities. In section 2.7, the IAIS specifically notes that *“All entities that act as insurers for products directed at supporting inclusive insurance markets should be subject to licensing and supervision.”* The section further notes that *“The licensing of innovative “insurers” should consider the proportionate nature of the licensing method and process, the possibility of using a registration option (see Guidance 4.1.6 for both of these), and the potential for the license to be conditional restricted (Standard 4.8) or limited in scope (Standard 4.9).”*

Thus, the OIC should consider the proportional risk related to these other insuring entities continuing without OIC licensure. Should there be some effort to move these entities into a position of insurance licensure, it would be appropriate to provide a transitional approach allowing them a path to formality. This may also be an effective approach for innovative microinsurance pilots.

b. Product-relevant regulation

Table 28 summarizes the product-related regulation in Thailand, and details of these regulations and their implications for market development follow. Much of this discussion is based on presentations by the OIC, the microinsurance framework documents, and Commissioner’s Orders. There is clearly the will to dramatically expand microinsurance in Thailand, and the Commission has made a number of efforts, outlined below, to create a legal environment for microinsurance.

In many countries, as in Thailand, there is a significant paradigm shift that microinsurance stakeholders – regulators, supervisors, insurers, actuaries, intermediaries and others – must make to develop an enabling environment for the successful proliferation of microinsurance. This paradigm shift requires a significant rethinking of insurance and how to apply it to make it successful to the low-income market. At every step, policies, processes, product components, terms and procedures all need to be re-evaluated for microinsurance. For example, a low-price product that adds value for low-income people requires low administrative costs. Many common methods of reducing these costs include providing a non-individualized policy document with very simple language, sales through unlicensed agents, the use of some technological solutions, general underwriting, and very limited exclusions. Many of these adaptations often have implications for supervision of microinsurance. The licensing and supervisory authorities should view microinsurance (and the rest of the insurance market) through the lens of proportionality. Every aspect of microinsurance needs to be reviewed in this way.

At no point in the development of a microinsurance market should a regulation or practice be justified simply by the fact that it is how things are done in the traditional market. Good microinsurance requires rethinking how we do insurance, and this has important implications for regulators and supervisors.

In Thailand, there has clearly been good thinking about some of the shifts that must be made to develop an inclusive microinsurance market. However, based on numerous discussions with policymakers, insurers and distribution channels as well as reviews of products and

demand research among the low-income consumers, it has become clear that the dramatic rethinking of what microinsurance is and the regulatory approach it requires remains nascent. Some of the specific areas of note are summarized in Table 28 with their implications discussed below.

Table 28 Main features of product-relevant regulatory framework

Area	Current provisions
General insurance definitions	A company may not engage in both life and non-life insurance business, as defined by the Insurance Codes.
“Microinsurance” product framework	Framework establishes standards for target population, policy wording, underwriting, premium collection, claims processes, and distribution.
Non-life microinsurance	Includes personal accident, economical residence, small store, and crop. Approved policies set standards regarding cancellation, maximum premium and commission.
Life microinsurance	Includes term insurance, endowment insurance, health insurance, personal accident. Approved policies set standards regarding cancellation, waiting period, maximum premium, expense loading, and commission.
Bundling	Compulsory bundling with a loan is not permitted.
Product approval	Insurance policies must be approved by the Registrar.
Documentation	Company must deliver the policy to the insured (or in the case of a group policy, a certificate of coverage).

i. Implications for market development: Product regulation

General insurance definitions. “Non-life insurance” means any damage which may be estimated in terms of money and shall include the loss of rights, benefits, or income (NLA §4). “Life insurance” is not defined in the Codes. A company may not engage in both life and non-life insurance business (LA §33(1); NLA §31(1)).

There is no general definition for MI in the Insurance Codes; it is defined through the Microinsurance Product Framework below

“Microinsurance” product framework. The Commission has established the following framework for microinsurance, much of which has not yet been incorporated into specific regulations, as the framework structure has been deemed sufficient at this point. Some components, such as the distribution expansion to include 7-Eleven stores, have been included in other legal framework documents.¹⁰¹

Target population: low to medium income population

- **+** Broad target market range is inclusive and conducive to widespread distribution of insurance.
- **–** However, it is important not to lose sight of the low-income population. New distribution is substantially focused on the middle income.

Policy wording: simple, low premiums or low coverage limits, few exemptions.

¹⁰¹ Microinsurance in Thailand. OIC PowerPoint (PPT) presentation

- - Smallest form is one page, which may not be simple enough, plus it comes with the full version. OIC legal department needs to reconsider what must be part of a microinsurance policy in practice.
- ★ “Low premiums” appear to have become the defining feature of microinsurance. This focus lacks recognition of the more comprehensive differences between micro and traditional insurance. Further definition or exemplifying microinsurance may improve this.

Underwriting: short and simple application form.

- + Simplicity can keep administrative costs down and promote client understanding. Identify what is the minimum information required for various types of products. In several countries the application form is becoming electronic and even available on mobile phones.

Premium collection: banks, counter service, MI agent.

- - Options are not sufficiently broad. Premium collection only requires confidence that the funds will be received in a manner acceptable by the insurer. This may include informal groups and other non-traditional premium collectors.

Claims process: fast and easy.

- +/- Good principle, but “fast” and “easy” are vague concepts that are not clearly defined. Given the practice in Thailand it appears that in many cases microinsurance claims are treated similarly to traditional claims. Internal processes must shift for microinsurance, and this will result in the need for a proportional response to the claims needs of microinsurance.

Distribution: through MI Agent or direct

- - MI agent requires licensing; there should be additional options. In many jurisdictions microinsurance agents are generally overseen by the insurer responsible for the product that they sell. (See below in Section 3.A.IV and Table 29.)
- There are no special regulations for microinsurance products except those for microinsurance agents for whom there is a relaxation in distribution rules. A license for microinsurance agents is for microinsurance products only, thus an MI agent cannot sell any product other than microinsurance products.
 - +/- Framework is generally a good approach, though there should be something that brings together the various insurers (coops, health, etc.). Agent license for juridical persons, insurer responsibility for agents.

Market development: The Commission has made efforts to facilitate the growth of the MI sector. Examples: (1) joining with government units (Ministry of Agriculture and Cooperatives, Ministry of Labour etc.) and enterprises in order to disseminate and educate the target population on insurance products; (2) seeking alternative distribution channels like convenience stores (7-Eleven), cooperatives, community groups, and others to assist with the challenges of expanding access to microinsurance.

- + Combined efforts are helpful.
- + Effort at alternative distribution is positive. See comments on distribution requirements below.
- (Also see the Supply Side paper in this series.)

Non-life microinsurance.¹⁰²

Includes personal accident (including daily indemnity for hospitalization; funeral expenses); economical residence (fire, strike, explosion and rental fee for temporary residence); small store (fire, strike, explosion); crop (drought/rain index for maize, rice)

- + Personal accident falls under life and non-life regulations. This is positive for microinsurance.
- “Sometimes an inability to bundle life and non-life products in the same insurer is cited as a barrier to access because of increased costs. Innovative approaches may include bundling together various life and non-life products, including health benefits. Depending on the nature of the market, this may represent a way to enhance access to insurance services.” (IAIS 3.12)
- Including but surpassing bundling is the issue of imbalanced taxation. Non-life products are subject to 7% value added tax (VAT) on premiums while life products are subject to 3.5% service value tax (SVT). Bundled products across insurer types should provide clarity in these rates. Note that Personal Accident (PA) policies can be sold by both life and non-life insurers. Such a taxation issue opens the potential for arbitrage, which is considered a concern by the IAIS (IAIS 2.28).

No **cancellation clause**; **waiting period** of no more than 180 days for funeral expense coverage.

- - 180 days may be too long for a microinsurance waiting period. Assess the real time requirement to manage adverse selection. Internationally, some insurers have no waiting period, as long as adverse selection is managed.

Maximum premium rates “by Commission approval” for crop insurance; for other types, not higher than THB 1,000/year (USD 32/year).

- - Less than USD 34 (THB 1,050) per year or about USD 3 (THB 93) per month, which results in a very narrow market, and is restrictive within an effort to create a more financially inclusive market.
- - However, different types of microinsurance should be considered for different levels of maximum premiums.

Maximum commission rates for personal accident, crop are 18%; for property, 23%.

- - Maximum commission rates may cause lack of sales effort.
- “Restrictions on commissions that create a disincentive to provide services to the underserved segment of the population should be avoided.” (IAIS 3.22)

¹⁰² Filing non-life insurance product approval procedure for microinsurance. 11 Feb 2010.

Approval: Other insurance policies which a Company will apply as microinsurance, must be submitted for approval based on the above framework

- – The approval process should be clarified and simplified; there should be a “Fast Track” if they comply with the framework
- “Traditional regulatory frameworks, including licensing procedures for products and agents, prudential norms and supervisory mechanisms, tend to have been designed for products and services of higher-income customers.” (IAIS 1.18)

Life microinsurance.¹⁰³

Includes term insurance (period 1-5 years), endowment insurance, health insurance (inpatient daily reimbursement by number of days), personal accident (accidental death, dismemberment, total permanent disability)

Waiting period of no more than 180 days; **grace period** of 60 days

- +/- Long waiting period needs to be assessed against actual control effectiveness. Good to have extended the grace period as low income typically have variable incomes.

Maximum premium rates not higher than THB 1,000/year (USD 32/year). Endowment premiums no more than THB 500/month (USD 16/month).

- +/- Should have a different premium cap for different families of products, and these low levels are restrictive, limiting the access that is envisaged.

Maximum expense loading of 25% of annual gross premium; maximum **commission** rates of 10% for single premium, 18% for multiple payment

- +/- Good to be concerned with expense loading, but practicality is questionable, especially as insurers still follow similar if not the same processes as with upper income products. Maximum commission may be a problem as noted above.

Mortality calculated at 100% of Industrial Business Thai Mortality Table by gender. Minimum interest rate for premium calculation is 2% PA.

- – This is likely not accurate for the low-income market mortality. It also suggests individual underwriting, which should not be the case in microinsurance.
- “Relative to more conventional insurance, the basic features of products oriented toward enhanced inclusion may include: [among others] preference for group underwriting.” (IAIS 1.24)

Approved products: Seven MI products have been approved in the categories of endowment, term insurance, accident, personal accident and hospital care (supplemental), and industrial (life).¹⁰⁴ See Appendix 3 for the complete list.

¹⁰³ Letter from the Insurance Commission dated 11 February 2010: “Filing life insurance product approval procedure for microinsurance.”

¹⁰⁴ Approved microinsurance products of life insurance companies. List provided by the Insurance Commission on 25 February 2013.

- +/- The effort to get products approved is laudable, however, several of these products have little in common with microinsurance except the low level of premium. A greater understanding of “microinsurance” and its implications in practice should be provided both within the OIC and with insurers. Clarity in the expectation and promotion of product innovation would also be beneficial.

Bundling. Compulsory bundling with a loan is not permitted and the entry into the insurance contract may not be related to the loan negotiation or other transaction with the bank.¹⁰⁵

– Limits reasonable lending prudence and ultimately may limit opportunities for the low income in the financial system.

When insurance is bundled with credit, this improves the credit quality and enhances the stability of the lender.

In some cases, especially agriculture, lenders who would not lend for a particular purpose will begin lending when they have insurance products that will protect their loan portfolio. Lenders have started lending for agriculture in cases where agriculture insurance became available, and where they could require people to purchase it with the loan.

Bundling also helps to improve the insurance culture when people get insurance with a loan or other product, such as fertilizer, and more people have experiences with insurance.

Bundling does increase the price of the clients’ target product (for example, insurance premiums are added to loan repayment amounts).

Product approval.

“Insurance policies, including related documents and endorsements and premium rates must be approved by the Registrar. The Registrar may order, in his discretion or upon application by a company to change, amend, add, or repeal the forms and texts partially or wholly as already approved by the Registrar.” (LA §29, 30; NLA §29, 30).

- + This provides the flexibility for the Registrar to enable the development and offering of “simple” policies even given the current requirements of the legal framework.
- – There should be a “fast track” to approval with limited review.

The Policy Templates for microinsurance (Takaful contracts for endowment, term life, accident, daily hospitalization; fire insurance, accident, motorcycle accident), including premium amounts and benefits, were approved by Commissioner’s Orders.

- +/- Helpful in providing some guidance, however could limit innovation.

Documentation delivered to policyholder.

When a Company issues a policy, it must deliver the policy containing the correct contents to the insured and attach documents summarizing the coverage and exceptions. For group insurance, the Company must deliver the policy and these documents to the policyholder

¹⁰⁵ Life and Non-life Notification dated 30 December B.E. 2551 (2008). Rules on methods for issuing and offering of insurance policy for sale and the performing of duty of life insurance agent and life insurance broker and bank; Circular 310/2536 Re: Provision of Service Related to Offering Insurance to Housing Loan Customer(s) issued by the Bank of Thailand (1 March B.E.2536 (1993)) restates this prohibition with respect to life insurance offered to housing loan customers.

and must issue each covered person a certificate of insurance together with the documents summarizing the conditions, coverage, and exceptions.¹⁰⁶

- - Policy itself must be very simple and only key info delivered to client (coverage, and how to make a claim). A general “master policy” approach with details to allow for simpler policy documents might be appropriate; the simpler policy would be provided to the policyholder while the “master policy” will be accessible. A “master policy” should not be a means to complicate microinsurance products.

For non-life microinsurance, the policy must contain a 1-page summary of coverage; the full policy must be in leaflet form.¹⁰⁷

- + The approved policy summaries show a good effort to shorten the form, but the full policy must also be simple. The Commission and insurers should think through a means to make this easier, which likely requires reconsideration by the legal department to include only what is necessary to the policyholder (coverage, claims process, and access to insurer). Leaflets should be for marketing and basic information provision (though should honestly reflect the product).

ii. Analysis and recommendations: Product regulation

While the Commission has set standards for a variety of features of microinsurance products, some would benefit from further clarity and specificity. For example, the features required of a “fast and easy” claims process should be elaborated, as well as product approval processes. While it makes sense to set premium caps to ensure that microinsurance products are really “micro,” they should be adjusted for different families of products – the broad standards for life and non-life products are too general.

While product features are generally appropriate for microinsurance clients, some are not sufficiently simple or otherwise inclusive. For example, a waiting period of 180 days is too long to be appropriate for low-income clients. While efforts to simplify documentation delivered to clients are important and valuable, the full underlying policy must also be simple.

Prohibiting bundling may unnecessarily limit market development. Prohibiting compulsory bundling with loans and potentially other products can limit opportunities not only for microinsurance market development, but for effective expansion of credit markets. Broader options should be allowed for distribution and premium collection to ensure that microinsurance reaches a broader range of clients. As simply one example, agricultural insurance would commonly be a requirement for obtaining an agriculture loan. This is a prudent effort on the part of agricultural lenders and protects clients from experiencing outstanding loans if their crops fail. Thailand’s agricultural bank, the Bank of Agriculture and Agricultural Cooperatives (BAAC), was able to sell agricultural insurance to less than 1% of its market. A mandatory product would likely have been cheaper for both the lender and the clients. It could have limited the potential for adverse selection and moral hazard due to a reduction in concentration risk, increased the insurance pool, and helped protect the many borrowers who were impacted by the weather events. All this is good for clients and good for the financial system as a whole, in addition to promoting more widespread distribution of insurance. In some jurisdictions, agricultural lending expands as financial institutions are able to require clients to purchase agricultural insurance coverage that reduces the risk to

¹⁰⁶ Ibid.

¹⁰⁷ Letter from the Insurance Commission dated 11 February 2010. Filing non-life insurance product approval procedure for microinsurance.

the lender. Risk management insurance for agricultural loans is a legitimate requirement for such borrowers, and is significantly impeded by the current insurance regulation.

Streamlining the product approval process could reduce administrative costs and reduce barriers to product innovation. In particular, creating a “fast track” approval process for policies that comply with the framework could be effective in encouraging insurers to innovate and to design appropriate products for certain client sub-segments.

Generally the microinsurance product framework is helpful and provides a foundation for innovative, valuable, and profitable microinsurance. However, in Thailand there is a significant disconnect between the core framework principles and the regulation. Indeed, the framework reflects principles promoted by the IAIS’s Application Paper, which notes in Section 1.24: “Relative to more conventional insurance, the basic features of products oriented toward enhanced inclusion may include:

relatively low premiums;

defined and limited cover;

short policy terms to limit risk;

few, if any, exclusions;

preference for group underwriting;

simple and rapid claims processing while still controlling for fraud.”

In practice, approved framework products do come at lower premiums, however, much of the complexity has remained. Policy documents are still complicated and unnecessarily dense. Exclusions, though fewer in many cases, remain significant and complicated. Claims processes often remain similar to those for traditional insurance thus unnecessarily extending claims duration and in some case making claims application too challenging for low income people. Helping the OIC staff, insurers and in some cases even distribution channels to better understand what simple microinsurance means, in a practical sense, is a necessary step to help all these parties break out the traditional provision of insurance and to effectively manage the paradigm shift.

Such an effort will require aiding insurance professionals to see how changes appropriate for microinsurance will allow them to offer profitable products. Examples from around the globe are beginning to be developed to help in understanding the requirements of a microinsurance business case, while at the same time providing value to policyholders.

Additionally, there may be scope for detailed and structured visits to other jurisdictions to experience how these others help insurers to understand the microinsurance paradigm shift. Such visits might also assist in witnessing successful and unsuccessful efforts at market education. The Philippines would general be a good example for Thailand of an effort by the regulator to both develop an inclusive microinsurance regulatory framework and promote awareness and understanding of insurance among the low-income population.

c. Prudential regulation

There are no special prudential standards for microinsurance; it is subject to the same prudential regulation as traditional insurance. *“Everyone should be offered the opportunity to be part of the formal financial system. Customers should be accorded the benefits of prudential supervision and fair treatment. Innovations in services and providers do not usually occur in a manner that eliminates risk and, as such, innovations that enhance*

inclusive markets should be subject to appropriate supervision. When seeking to enhance inclusive insurance markets, bringing the underserved and unregulated into the formal financial system facilitates inclusion in a safe and orderly manner.” (IAIS 2.5)

Bringing all insurance providers into the realm of formal microinsurance requires transitional processes, proportional reporting and monitoring, and appropriate insurer financial stability. This is a major effort that would require significant coordination between various authorities including those for Cooperatives and Health. Among the groups that would need to be integrated are the large informal MI groups (9.28 million people), the coop schemes (1.4 million), and the SFIs (5.8 million). Integration could take place over several years through one or more additional tiers in legal framework to accommodate an evolutionary process. Likely the most challenging aspect of this exercise would be the political aspect, in which “control” shifts from one authority to another. Table 29 summarizes the main prudential regulations, which are considered in more detail below.

Table 29 Main features of prudential regulatory framework

Area	Current provisions
Licensing & renewal	A license is required to act as an insurer, and a Company may not engage in life and non-life insurance.
Revocation of license	The Minister of Finance may revoke a license for specified reasons.
Financial management	Specifies actuarial requirements.
Returns filing & publication	Companies must submit specified reports and statements to the Commission; no separate reporting for MI activities.
Risk management & reinsurance	Each Company must submit a Risk Management policy to the Commission each year.
Capital, solvency & reserving	Companies must maintain capital funds in proportion with assets, liabilities, obligations, and risks, at the rate prescribed by the Commission.

i. Implications for market development: Prudential regulation

Licensing & renewal.

A license, granted by the Minister of Finance, is required to act as an insurer by entering into a Life/Non-Life Insurance contract with any person (LA §7, 18; NLA §6, 17).

- **+** No separate licensing for MI insurers, but this may be necessary if informal insurers are intended to formalize. This would require at least a legal transitional process.

A Company may not engage in both life and non-life insurance business (LA §33(1); NLA §31(1)).

- **-** In microinsurance, it may reduce administrative costs to offer bundled life and non-life policies. IAIS application paper suggests merging for microinsurance.
- “Sometimes an inability to bundle life and non-life products in the same insurer is cited as a barrier to access because of increased costs. Innovative

approaches may include bundling together various life and non-life products, including health benefits. Depending on the nature of the market, this may represent a way to enhance access to insurance services.” (IAIS 3.12) Such bundling in Thailand may facilitate microinsurance expansion while reducing administrative costs.

Revocation of license. The Minister of Finance may revoke a license for the reasons specified in LA §64 and NLA §59, including unstable financial condition, delayed payment of a claim or return of a premium without any reason, or a paid claim or returned premium in bad faith.

– “Without any reason” is vague; this may be especially concerning in MI where companies struggle to process claims quickly.

+ However, it is particularly important to protect microinsurance clients from unstable providers and unfair practices. Proportionality will be an important consideration.

Financial management and actuarial requirements. A report of liabilities under insurance policies shall be certified by a licensed actuary (LA §83/1, 83/2; NLA §78/1, 78/2). Requirements for a license are specified in LA §83/3, 4 and NLA §78/3, 4, and licenses are valid for 2 years (LA §83/5, NLA §78/5).

★ Actuarial valuations for microinsurance often require a somewhat different process because the data for low-income markets is typically not available.

“It may be necessary to recognize that some actuarial functions might be supported in a shared fashion across insurers or the insurance market, specifically actuarial approaches used in setting technical provisions, premiums, and pricing. (IAIS 4.22)

“Preconditions (paragraph 22 of the introduction) recognize the need for skilled, competent, independent and experienced actuaries, accountants and auditors. Specific expertise with regard to a particular underserved segment of the market may need to be developed, the supply of professionals may need to be expanded, or other mechanisms put in place to ensure capable professionals play a role where their skills are needed and not only in more conventional market segments.” (IAIS 5.8)

Returns filing & publication

Companies must submit to the Commission: audited quarterly financial statements, audited annual financial statements with auditor opinion, annual reports showing operating performance¹⁰⁸ (LA §43, NLA §47), annual reports of the calculation of liabilities under insurance policies, certified by an actuary, as prescribed by the Commission (LA §47, NLA §50/2), and other documents, reports or information as required by the Commission (LA §45, 46/1, 48; NLA §49, 50/1, 51).

- – These reports will not necessarily reveal problems with a Company’s MI products or activities; separate reporting for MI products, which requires separate account tracking, is also needed.
- “Supervisors should consider collecting information from insurers beyond the minimum, for example, collecting information that would facilitate analysis of customer experiences. For example, customer experience measures could mean collecting information on new business flows so that renewal rates

¹⁰⁸ For branch offices of foreign companies, the last may be the annual report of the company of which it is a branch.

could be calculated. Discontinuance rates could be collected for some longer duration products. Statistics associated with claim payment times can be important particularly when dealing with customer groups with more limited financial resources. Complaints measures tend to be a main focus among market conduct supervisors. (refer Insurance Core Principal, ICP, 19)” (IAIS 4.35)

- “Supervisors should not expect to collect data on client demographics, especially related to client income as a means of ensuring low-income market penetration. Such data is too costly to obtain and maintain.” (IAIS 4.36)

Companies must publish balance sheets and statements of income in the form prescribed by the Commission in a newspaper and in all offices of the Company (LA §46, NLA §50).

- + Key microinsurance data should also be published as a means of enhancing the potential for value to clients.

Risk management & reinsurance. Each Company must submit a Risk Management policy to the Commission each year, specifying the sources of risks, types of risks, risk appetite (level of risk the Company can accept in order to meet its objectives), and related 3-year business plan. The Company shall specify the scope of and identify the main content of risk management, including product design and development, insurance pricing, underwriting, claim management, reinsurance, and investment in other resources.¹⁰⁹

★ The supervisor should consider in advance how the microinsurance related-risk will be treated in such a risk management report. The risk to insurers is different than for traditional insurance, as controls are managed differently, products are designed differently, and risk premiums are calculated differently, in addition to the value of premiums and the related maximum coverage liabilities being dramatically lower.

Capital, solvency & reserving

Capital: Companies must maintain capital funds in proportion with assets, liabilities, obligations, and risks, at the rate prescribed by the Commission (LA §27; NLA §27). A capital funds maintenance report must be presented to the Registrar every month (LA §27/5; NLA §27/5). (See Norton Rose, 2012)

According to the Insurance Development Plan Vol. 2 (IDP 2), “efforts have been made to improve techniques in the monitoring and examination of insurance companies with emphasis placed on Risk-Focused Monitoring and Examination. Basic principles include: 1) monitor to single out companies that are at risk for financial instability through monthly and annual budget reports; 2) companies at financial or performance risk will be encouraged to deal with the source of the issue to reduce the degree of damage.” The IDP goes on to outline the quantitative and qualitative measures used.

- ★ How will MI be treated in terms of capital requirements within a risk-based supervision environment in Thailand?
- “When seeking to enhance access to inclusive insurance markets, the absolute minimum bound for the Minimum Capital Requirement (MCR) may be revised to a lower level reflecting a lower risk profile and more limited need

¹⁰⁹ Life and Non-life Notification dated 30 December B.E. 2551 (2008). Rules, Procedures and Conditions for Prescribing the Requirement of Risk Management for Life/Non-Life Insurance Companies

for detailed governance and risk management. This allows a wider range of entities to participate in the provision of insurance services.” (IAIS 3.17)

- + There is scope to adjust capital requirements in such a way that facilitates the transition of insurers that are not licensed by the insurance commission, as well as to create a platform for microinsurance-only entities.

ii. Analysis and recommendations: Prudential regulation

Thailand does not have a separate set of licensing or prudential regulations applicable to microinsurance. IAIS standards indicate that *“insurance activities should be conducted by licensed entities”* (IAIS 2.3), which are subject to prudential regulation. Prudential regulation works to protect both policyholders and the insurance (and broader financial) market, and *“should generally apply to all insurers covered by its scope, independent of their size or the nature and scale of their business.”* The *“special characteristics and features of microinsurance business”* often warrant special application of prudential standards (IAIS, 2007).

As in many other microinsurance markets, in Thailand a great deal of microinsurance is provided through Community-Based Organizations (CBOs) and other informal providers (see Sec. 3.1 of the accompanying Supply-Side Paper). It is generally the role of the regulator and supervisor to *manage the transition of informal insurance operations into formal. This can be done by providing a path for the informal provider to obtain its own license, or to shift these informal activities to existing licensed insurers, and begins by creating a process for registering these informal entities and setting some minimum requirements* (IAIS, 2012). During the transitional phase, informal entities should operate a restricted business model reflecting the extent that their business is lower risk, smaller, and less complex. *“[I]mposing restricted business models with commensurate recognition of the impact on the nature, scale and complexity of the risk should be implemented to encourage the path to a more formal status”* (IAIS 2.25).

Also taking insurance risk are cooperatives, credit unions, and the GSB. Although the GSB comes under OIC supervision through its agent activities, its savings-linked insurance products do not. To ensure consistency with insurance regulation and supervision, it would be beneficial for the OIC to take on the role of overall supervisor for insurance. In the cases of cooperatives, credit unions, and the GSB, the insurance they manage is substantially microinsurance.

“When seeking to enhance access to inclusive insurance markets, however, the roles of policymaking, regulation and supervision may often be shared among various agencies. Where there are shared roles, the insurance supervisor would be the most appropriate supervisory body to be given a leading mandate and role, as the insurance supervisor would normally have the necessary skills and expertise.” (IAIS 5.5)

Regardless of whether separate microinsurance licensing is implemented, *all Companies offering microinsurance products should be subject to additional microinsurance reporting requirements.* Regular reports on the ten key performance indicators (KPIs)¹¹⁰ should be filed regularly and made publicly available by all Companies offering microinsurance products. These reports apply only to microinsurance activities and require separate account tracking for microinsurance activities (including premiums, claims, and expenses). These KPIs fit with the current requirements of the OIC, which include a cap on expense loading. It is advisable that prior to the implementation of expense loading caps, and other quantitative

¹¹⁰ These include 1) incurred expense ratio, 2) incurred claims ratio, 3) net income ratio, 4) renewal ratio, 5) coverage ratio, 6) growth ratio, 7) promptness of claims settlements, 8) claims rejection ratio, 9) solvency ratio, and 10) liquidity ratio. See Wipf & Garand (2010).

requirements, the OIC collect data from microinsurance providers to gain a better understanding of the quantitative reality of the insurers working in microinsurance. This knowledge will help inform a better legal framework.

Actuaries are commonly challenged with microinsurance. It may be helpful to collect microinsurance experience data to provide more targeted data on microinsurance and allow for more effective pricing of microinsurance products. When actuaries face quantitative ambiguity they load the risk premium to offset the ambiguity. This often results in overpricing microinsurance. Starting with better data may help to reduce the loading. Additionally, because of this quantitative ambiguity, it is doubly important to track microinsurance specific results. It is with these quantitative results that adjustments can legitimately be implemented.

d. Legal Framework for Microinsurance Intermediation and Sales

Microinsurance expansion is almost completely reliant on distribution channels. As in Thailand, traditional agents are not interested selling microinsurance (at least not voluntarily on a one-to-one basis). Commissions on tiny premium leave little for them feed their families, while with their insurance agent's license they could be selling to the upper market and making significantly more money. This is likely part of the reason that there are hundreds of thousands of insurance agents in Thailand and less than one thousand microinsurance agents, even though the potential market for microinsurance is likely more than ten times as much as the potential market for traditional insurance. Even many of the agents who have been registered as microinsurance agents are said to have done so simply as a step towards full agent status.

Sales of microinsurance products require at least several conditions:

Trust in insurance (which is weak in Thailand, as reported in the accompanying Demand Paper)

Products that actually are simple and appropriate for the low income market (which in many cases is questionable as per the accompanying Demand paper)

A price that is within their range (and microinsurance premiums can be somewhat flexible if the products address the issues in this list)

A good match to their needs (requiring research into client needs)

Simple access through a person that they trust

It is important that insurers and the insurance commission recognize the importance and methods of implementing these conditions if there is to be a successful expansion of insurance within the financial inclusion efforts. Efforts made thus far have been more positive in terms of ideas, but the paradigm shift that is required still has not gained much traction.

The person and type of communication that the typical low-income client trusts is typically not a traditional insurance agent. "Communication requirements are usually most effective when they are provided in the local language and in the context of a trusted interface/intermediary relationship" (IAIS 4.42). It is indeed often best if the agent is not a traditional agent, because in addition to agents' reluctance to work in microinsurance, the low income market typically does not trust them anyway. In Thailand, the low-income market's trust in insurance has actually been further eroded over the last several years as people have been cheated by "agents" coming to their neighborhoods and workplaces, taking premiums, and disappearing. Overcoming this lack of trust will require a different approach to agents, as well as firm sanctions on those who cheat as insurance agents.

A broad array of distribution channels should be available to insurers without overly burdensome regulatory constraints and licensing requirements for each agent. Agents should be the responsibility of the insurers for whom they sell. These insurers should be responsible for agent training, possibly based on an approved curriculum from the OIC, should have tools to oversee the agents' activities, as well as providing the necessary inputs for proper and effective sales. Efforts have been made to expand the range of distribution channels (including through 7-Eleven stores). This effort should continue, and there should be a focus on making sure that distribution potentially covers those that have limited or no access. 7-Eleven is a great start for the middle and upper income population with limited access to insurance, however, other distribution should be considered which provides access to the lower income people also.

Simple microinsurance products do not require extensive education on the part of the microinsurance agent. There is no individual underwriting, no client risk assessment, and no variable pricing. Microinsurance, by its very definition, is simple. There is little to explain and few options for each policy type. As a result, the minimum capacity to sell microinsurance is actually very low. Thus, a basic set of learning requirements should be introduced that insurers will be required to convey to their agents. This would include basic concepts of insurance, insurance ethics, the particular product, and the mechanics of servicing it (for example, sales, maintenance, and claims). It might be that, as in the Philippines, the basic curriculum is approved by the Commission, or that specific trainers are accredited to provide the training. Keeping this process inexpensive and effective will be the key to success.

Much of the microinsurance available in other countries is sold through groups and on a mandatory basis. Thailand does not allow linked sales where insurance is linked necessarily to loans. In many countries such linkages are the backbone of expanding microinsurance as well as building an insurance culture (which is clearly needed in Thailand). Restricting such sales slows microinsurance expansion.

As Thailand is learning, massive channels like 7-Eleven may be an effective channel for reaching the middle class with insurance. However, they may not prove effective for the low-income markets. Matching markets that low-income people already access with the available microinsurance products is a key element in successful microinsurance distribution. Additionally, a significant issue in Thailand will be the issue of voluntary-only products. Retail outlets such as 7-Elevens and the soon to be licensed Postal Service will effectively be passive channels that require people to come to the location seeking microinsurance. They may be ineffective in reaching low-income people who have limited experience with and understanding of insurance and are particularly untrusting of it; the microinsurance market may often need more active explanation and "selling." The OIC plays a development role, and as such will need to address the shortcomings of such passive sales through consumer education efforts and creating an environment in which microinsurance is seen by the market as advantageous to them. The OIC should also remember that there are few places where voluntary insurance is what moves the market.

Table 30 summarizes the legal framework relative to sales and intermediation of microinsurance in Thailand.

Table 30 Main features of intermediation regulatory framework

Area	Current provisions
Methods of offering	A Company may offer an insurance policy for sale via an agent or broker, telephone, direct mail, a bank (bancassurance), or "other methods".
Traditional agent regulation	Definition, qualifications, required training, powers, and liability.

Microinsurance agent regulation	MI agents are subject to relaxed distribution rules.
Broker regulation	Definition, qualifications, required training, authority.
Wage and commission rates for agents and brokers	Specified maximum wage or commission rates paid for agents and brokers range from 12% to 40% of the premium, depending on the product.
Telemarketing	Requirements for issuing and offering insurance policies for sale via telephone.
Sale by direct mail	Only the Company itself may offer the product in this way.
Bancassurance considerations	Bank employee offering the product must have a broker license and make certain disclosures.

i. Implications for market development: Intermediation and sales

Methods of offering. A Company may offer an insurance policy for sale via an agent or broker, telephone, direct mail, a bank (bancassurance), or “other methods.”¹¹¹

+ Allows the flexibility to distribute through various channels.

Traditional agent regulation.

Definition: person appointed by a Company to solicit people to enter into a life insurance contract with the Company (LA §5; NLA §4).

- “To better reach underserved customers, intermediaries could include an insurer’s direct sales staff, independent or exclusive agents, banks and their correspondents, retailers, microfinance institutions, post office agencies, non-governmental organizations (NGOs), mutuals, cooperatives, social and religious associations, utility service providers (electricity, gas, telephone and mobile) and specialized microinsurance brokers or agents, or electronic means.” (IAIS 3.18)
- Regulations should not exclude potential distribution channels without significant rationale.

Qualifications include domicile in Thailand, not being a broker, and having studied life insurance at an institute prescribed by the Registrar or passing an exam (LA §69; NLA §64).

Training requirements for issuance and renewal of license are 6 hours each year for issuance and first three renewals, requirements decrease thereafter.¹¹²

Powers and liability: May enter into insurance contracts and receive premiums on behalf of the Company upon being authorized by the Company (LA §71; NLA §66). A Company shall be jointly liable with its Agent for damages the Agent causes while acting as an agent for the Company (LA §70/1; NLA §65/1).

¹¹¹ Life Notification dated 30 December B.E. 2551 (2008). Prescription of rules on methods of issuing and offering insurance policy for sale via telephone; Non-life Notification dated 18 May B.E. 2551 (2008). Rules on methods for issuing and offering of insurance policy for sale and the performing of duty of Non-life insurance agent and Non-life insurance broker and bank.

¹¹² Life and Non-life Notifications dated 10 October B.E. 2551 (2008). Prescribed Courses and Methods for Training Applicants Applying for Life/Non-life Insurance Agent and Broker License Issuance or Renewal.

An Agent may be an agent for more than one Company with consent of the Companies. (LA §69; NLA §65) An agent's license shall indicate the Company for which he works (LA §68; NLA §63).

An agent may not use any text or picture advertisement not approved by the Company (LA §30/1; NLA §30/1).

Microinsurance agent regulation.

MI agents are subject to relaxed distribution rules (a special license applicable only to the sale of microinsurance products).

- + Easing of requirements for agents is a positive and necessary change from traditional agent requirements.
- + Agent can be a person or company
- - Agents are required to attend 50% of the training of the full agents. Training time says nothing about content or quality. Identifying core basic knowledge requirements that are consistent with the risk of the products and requiring knowledge in those areas could be more effective and might take more or less than 50% of the training of full agents.
- "Standard 18.1 envisages both individual and other forms of intermediation, and usefully identifies the benefits of conditional, limited or more specific licenses. Approaches that are consistent with the nature scale and complexity of the risk to achieving supervisory objectives will be important to ensuring the objectives of ICP 18 are achieved when seeking to enhance access to inclusive insurance markets." (IAIS 3.19)
- "Finally, to encourage innovation and various business models, regulations that prevent insurers from providing risk bearing capacity to innovative distribution channels should be reviewed. Risk bearing capacity should be able to be provided to innovative distribution channels regardless of form, while protecting policyholders." (IAIS 3.26)

Pinijparakarn (2013)¹¹³ refers to a license granted in 2013 to Counter Service, the payment service at 7-Eleven, to distribute microinsurance. This license allows it to distribute products of multiple insurers.

- + Flexibility with institutional type of distribution, as well as multiple product types.
- - The process for registering the Post Office is said to be taking several months. This process needs to be streamlined to make it easier for a potential distribution channel to be licensed.
- - With Counter Service, the company is registered as a broker, and premiums will be paid to a cashier. A cashier in each Counter Service location will need to be licensed. This is onerous, costly and unnecessary.

¹¹³ Pinijparakarn, J. (2013). Micro-insurance on offer at 7-Eleven. *The Nation*. Retrieved from <<http://www.nationmultimedia.com/business/Micro-insurance-on-offer-at-7-Eleven-30199996.html>>

- “To encourage innovation and various business models, regulations that prevent insurers from providing risk bearing capacity to innovative distribution channels should be reviewed. Risk bearing capacity should be able to be provided to innovative distribution channels regardless of form, while protecting policyholders.” (IAIS 3.26)
- “Requirements relating to individuals should not prohibit other legal forms such as corporate entities or cooperatives acting as intermediaries. Intermediation options should be considered based on economic principles rather than regulatory bias or arbitrage (Standard 18.1).” (IAIS 3.21)

Broker regulation.

Definition: person (natural person or company) who, expecting commission, indicates the opportunity or arranges for a person to enter into a life insurance contract with a Company (LA §5; NLA §4).

Qualifications include, 1) for a natural person, domicile in Thailand, not being an agent or working for a Company, and having studied life insurance at an institute prescribed by the Registrar or passing an exam), 2) for a juristic person, having its head office in Thailand, brokerage being within the scope of its business, and having officers or employees licensed as brokers (LA §72; NLA §67).

Training requirements for issuance and renewal of license are 10 hours each year for issuance and first two renewals, and requirements decrease thereafter.¹¹⁴

May **receive premiums** on behalf of the Company upon being authorized by the Company (LA §71; NLA §66).

- ★ In microinsurance, the intermediary often assists with the payment of claims as both an efficient measure and a means to facilitate faster claims payments. In Thailand, brokers and agents should be provided these capacities given reasonable controls from the insurer. The issue of claims speed is important to facilitate.
- “Barriers to access may relate to the purchase of the product, ongoing premium payments and collection services, claims, or customer service complaint handling.” (IAIS 1.13)

Wage and commission rates for agents and brokers.

Wage or commission rates paid for agents and brokers for life insurance:

- First year, not more than 40% of the first year premium
- Second year, not less than 40% of the wage or first year commission rate
- Third year, not less than 25% of the wage or first year commission

¹¹⁴ Life and Non-life Notifications dated 10 October B.E. 2551 (2008). Prescribed Courses and Methods for Training Applicants Applying for Life/Non-life Insurance Agent and Broker License Issuance or Renewal.

- Fourth year, “other wages or commissions for existing policy rate or incentives which can be assumed as normal wage or commission rates”
- Wage or commission rates as indicated above may not be applied to Group life insurance or to policies which are specially approved by the Insurance Commissioner which may be paid with other rates.¹¹⁵

Maximum remuneration or commission rates paid for agents and brokers for non-life insurance:

- Fire insurance: 12-23% of premium, depending on duration
- Marine or carriage: 13%
- Voluntary motor insurance: 18%
- Mandatory motor insurance: 12%
- Other insurance: 18%¹¹⁶
- – Setting a low cap on commissions may prove to hinder insurance expansion. However, these caps are very high for microinsurance, and as such are unlikely to restrict agents and brokers in practice from charging market rates. They should at a minimum be monitored to ensure that they are not disincentivizing intermediaries from working in microinsurance or from providing necessary services.
- “Restrictions on commissions that create a disincentive to provide services to the underserved segment of the population should be avoided. Additionally, particularly when intermediaries have an increased role in other areas such as ongoing servicing functions, remuneration should encourage effective servicing beyond the point of sale.” (IAIS 3.22)

Telemarketing. Notifications¹¹⁷ list requirements for issuing and offering insurance policies for sale via telephone applicable to Companies, brokers, and agents, including disclosing information about the policy and the policyholder’s right to cancel the contract within 30 days and not persuading the insured to cancel other insurance policies to purchase the new one.

+ In some countries (with high mobile penetration) call centers are used to sell and service microinsurance; the regulations in Thailand explicitly permit this and do not create substantial additional burdens on such sales.

Sale by direct mail. Only the Company itself may offer the product in this way.¹¹⁸

¹¹⁵ Life Notification dated 30 December B.E. 2551. Wage or Commission Rates for Life Insurance Agents and Brokers. Clauses 4 and 7.

¹¹⁶ Non-life Notification dated 30 December B.E. 2551 (2008). Rate of Remuneration or Commission for Non-Life Insurance Agents and Non-life Insurance Broker.

¹¹⁷ Life Notification dated 30 December B.E. 2551 (2008). Prescription of rules on methods of issuing and offering insurance policy for sale via telephone; Non-life Notification dated 18 May B.E. 2551 (2008). Rules on methods for issuing and offering of insurance policy for sale and the performing of duty of Non-life insurance agent and Non-life insurance broker and bank.

¹¹⁸ Life Notification dated 30 December B.E. 2551 (2008). Rules on methods for issuing and offering of insurance policy for sale and the performing of duty of life insurance agent and life insurance broker and bank; Non-life Notification dated 18 May B.E. 2551 (2008). Rules on methods for issuing and offering of insurance policy for sale and the performing of duty of Non-life insurance agent and Non-life insurance broker and bank.

Bancassurance considerations. Bank employee offering the product must have a broker license, must identify him/herself as a broker, and must clarify that the insurance purchase is different from making a deposit with the bank. Additionally, insurance contracts with the bank's customers must be voluntary not compulsory and should not be related to loan negotiations nor other bank transactions. The bank must also be a broker.¹¹⁹

- A broker license is required for the selling individual, which may be unduly restrictive.
- Some microinsurance naturally links with credit and in some cases this can open lending, especially in terms of agriculture loans. Mandatory credit life is a staple microinsurance product in most countries. It also helps to strengthen the banks.

ii. Analysis and recommendations: Intermediation and sales

Promising steps have been taken toward facilitating broad distribution of microinsurance, but further clarity and specificity in the regulations is needed. The creation of a special category of microinsurance agents promises to facilitate distribution through the non-traditional channels that are typically most appropriate for microinsurance clients. However, the Commission has not yet issued regulations detailing the training and other licensure requirements for microinsurance agents or the role they may play. In particular, regulations should establish:

The content and duration of training required for microinsurance agent licensure (including any ongoing training requirements); this should include basic training on:

- What is insurance and microinsurance?
- The role of the agent
- Agent ethics
- Product details
- Processes for microinsurance
- Selling microinsurance

Who may provide this training;

- This should also be broad, but with a clearly defined core curriculum, given the proportionality approach

In the case of institutional agents, the individual(s) within the institution who must be trained should be designated;

Any limitations on the type of institution that may receive an institutional microinsurance agent license;

- With microinsurance this should be a very limited list

Any limitations on the role that microinsurance agents may play in selling and servicing policies (vs. traditional agents);

- Should be restricted to clearly defined "microinsurance" products

¹¹⁹ Ibid.

The extent to which the regulations regarding telemarketing apply to microinsurance agents;

The use of technology in microinsurance distribution

- This should be carefully broad as technology may be important to reducing administrative costs

Clarify the use of marketing materials by agents;

Clarifying agent oversight either through licensure (which may be complicated and expensive) and / or through the supervising insurer;

The role of agents in terms of premiums collection and claims settlement

There are no special wage or commission caps for microinsurance agents, and those applicable to traditional insurance agents and to brokers would allow wages and commissions that are generally not appropriate for microinsurance. While such caps could be effective in curbing unfair or abusive commissions, they can also hinder expansion of the market. If any more restrictive wage or commission caps are set for microinsurance, this tradeoff should be carefully considered, and the caps should be sufficiently flexible to account for the difficulty and uncertainty of distributing microinsurance, especially to the most marginalized populations.

The prohibition on mandatory, bundled credit-life may also represent a significant barrier to expansion of the microinsurance market. In addition to limiting availability of microinsurance, it may limit access of low-income people to formal credit markets.

e. Consumer protection regulation

Many of the efforts to develop truly simple microinsurance products, as well as many of the efforts to reduce administrative costs, have an important impact on consumer protection. For example, detailed language on insurance policies is intended to ensure that policyholders have all the possible information that they might need about their policy. In microinsurance a simple policy document is advocated. Also, agents with limited skills and training are promoted as most appropriate for selling to the low income market. Much of what creates the need for extensive policy documents or highly trained agents in traditional insurance is the complexity of products. If microinsurance products are truly simple, with very limited or no exclusions, very clear coverage, a single price, group based-underwriting, an automatic premium collection method, a simple claims process, and easy access to the insurer to address questions, there is no need for long policy documents nor for extensively trained agents. In microinsurance, it is when there is too much product and process complexity that most consumer protection issues arise.

Microinsurance certainly is not immune from mis-selling – indeed there has been a serious problem of agent fraud in Thailand. Nor is it immune from low-income clients that are weary of contacting an insurer when there is a problem, nor of faulty marketing or other issues. *“Particularly [with] consumer protection, the risk to achieving supervisory objectives may suggest increased intensity of supervision.” (IAIS 1.8.10) “Protection mechanisms need to be tailored to a customer segment with low financial literacy, and little or no experience with insurance. While keeping transactions costs low, it is important to address effective disclosure, simplicity of products, fair and accessible resolution of disputes and recourse options and efficient claims mechanisms.” (IAIS 1.17)* Table 31 reviews the specific consumer protection provisions with a special focus on those with microinsurance implications.

Table 31 Specific consumer protection provisions outside of prudential and intermediation framework

Area	Current provisions
Marketing	Disclosure requirements and other obligations of those selling insurance; advertisement in conflict with policy document will be construed in light most favorable to client.
Policy document (general requirements)	Company must deliver the full policy document to the insured (or in the case of group insurance, a certificate of insurance and policy summary).
Approved microinsurance policies	Form, terms, premiums, and benefits for different types of microinsurance policies have been approved; approximately 10 pages, with a 1-page summary; language and coverage fairly complex.
Free look / cooling off periods	Policyholder may cancel within 30 days (in case of sale by telemarketing) or 15 days (for certain other microinsurance sales), but not all MI policies have a free look period.
Grace periods	A 60 day grace period is provided for microinsurance.
Claims requirements	Timing requirements for client to notify insurer of claim vary and are in some cases ambiguous.
Complaints	The Registrar may have any grievance relating to insurance reviewed, and may arrange for resolution/settlement.

i. Implications for market development: Consumer protection regulation

Marketing.

Requirements (applying to insurance companies, brokers, and agents) when offering an insurance policy for sale include disclosing information about the policy and the policyholder's right to cancel the contract within the appropriate cooling-off period and not persuading the insured to cancel other insurance policies to purchase the new one.¹²⁰

- - Insurers should be able to market in innovative ways. Thus the OIC should not restrict the marketing as long as it is honest.
- - The cooling off period will be an operational challenge for insurers to manage and will add operations costs. An approach to addressing the cooling off period might to be set a limit above which policies must apply the cooling off period. This limit could be set in relation to the risk to the client. Thus, for example longer term, more complex, life insurance products, or those carrying investment guarantees might experience a cooling off period, while basic term life and supplemental health products may not.

Text or pictures of an advertisement are deemed a part of the insurance policy, and if they conflict with the policy document, it shall be construed as is most favorable to the insured/beneficiary (LA §30/1; NLA §30/1).

- - Insurers should market true to their policies. The simple policy document should be final word on language. Brochures and marketing

¹²⁰ Life Notification dated 30 December B.E. 2551 (2008). Rules on methods for issuing and offering of insurance policy for sale and the performing of duty of life insurance agent and life insurance broker and bank; Non-life Notification dated 18 May B.E. 2551 (2008). Rules on methods for issuing and offering of insurance policy for sale and the performing of duty of Non-life insurance agent and Non-life insurance broker and bank.

materials are unlikely to be fully comprehensive so simplicity in conveying the marketing message should be viewed with that realization. Thus, just because it is not included in the marketing, it should not be considered a legal lapse. However, willful distortions should not be allowed.

Policy document (general requirements).

When a Company issues a policy, it must deliver the policy containing the correct contents to the insured and attach documents summarizing the coverage and exceptions. For group insurance, the Company must deliver the policy and these documents to the policyholder and must issue each covered person a certificate of insurance together with the documents summarizing the conditions, coverage, and exceptions.¹²¹

- - The cost of delivering individualized policy documents to each policyholder (or individual in a group) may prove too high. Where possible, other methods should be allowable, such as scratch off documents with unique numbers that can be linked through call centers, mobile receipts, or generic receipts for group members. Innovation is important to help reduce costs.

If a Company issues a policy which differs from the approved text, the insured may hold it liable under the insurance policy as issued or as approved, or the insured may terminate the policy and require the Company to return all premiums paid (LA §29; NLA §29).

- - What is important is the simplicity and accuracy of the policy document. It is important that the OIC recognizes the need for very simple policy language to accompany simple microinsurance policies.
- - Risk based approaches should set general characteristics of a legal policy and should not require OIC approval for the policy or marketing language.

Approved microinsurance policies.

Form, terms, premiums, and benefits for different types of microinsurance policies were approved by Commissioner's Orders¹²² (the Template Policies).

- - The requirements for documents going to policyholders for microinsurance products should be revisited in light of the nature and relative limited risk and simplicity of microinsurance.

Approved contracts are approximately 10 pages each. The Orders contain 1-page summaries of coverage.

Actual policies and the template policies are fairly complex, in both language used and coverage, including exclusions, waiting and contestability periods, and claims requirements.

¹²¹ Life Notification dated 30 December B.E. 2551 (2008). Rules on methods for issuing and offering of insurance policy for sale and the performing of duty of life insurance agent and life insurance broker and bank; Non-life Notification dated 18 May B.E. 2551 (2008). Rules on methods for issuing and offering of insurance policy for sale and the performing of duty of Non-life insurance agent and Non-life insurance broker and bank.

¹²² Order No. 42/2011 dated August 23, 2011. Enforcement of Takaful contract on endowment and term insurance for micro Takaful; Order no. 40/2011. Features, Clauses and Subsidy rate of Takaful contract: Accident Insurance for micro Takaful; Order no. 41/2011. Features and Clauses of Takaful: Health Daily Indemnity Rider for Micro Takaful; Order no. 9/2010. Determine Features, Clauses and Premium Rate of Micro Insurance for Non-Life Insurance Company; Order no. 23/2010. Determine Features, Clauses and Premium Rate of Accidental Insurance for Motorcycle Service Driver (Smile Motorcycle) for Non-Life Insurance Company; Order no. 25/2010. Determine Features, Clauses and Premium Rate of Micro Insurance for Non-Life Insurance Company; Order no. 26/2011 Determine Features, Clauses and Premium Rate of Micro Insurance for Life Insurance Company.

- - Product and language simplicity provides greater consumer protection than long policies with complex language. Policy language should be revisited.

Free look / cooling off periods. For policies sold through telemarketing, policyholder may cancel within 30 days (except for certain motor vehicle and fire insurance policies).¹²³ Otherwise, policyholder may cancel a life insurance or Takaful microinsurance contract within 15 days.¹²⁴ Other microinsurance Template Policies do not specify any free look period.¹²⁵

+/- Microinsurance products, including term life policies, should not include cooling off periods, as this will have a negative impact on administrative costs and adds complexity to the products with limited practical consumer protection.

Grace periods. LA §38 provides that the Commission may prescribe rules relating to “collection of premiums” and “extension of payment period.” A 60 day grace period is provided for microinsurance. For Takaful and fire microinsurance contracts, there is 60 day grace period from the Takaful’s premium/subsidy payment due date. Accident and motorcycle accident policies do not specify a grace period.

+ Because low income clients often have variable income flows, a grace period helps to smooth the income swings.

Claims requirements. Template Policies for microinsurance require policyholder or beneficiary to notify the insurer “immediately” or “as soon as possible” or “within 15, 30 days” of a claim (depending on event), and submit full proof within a specified time (usually 30 days) unless they can show good reason for not doing so.

- The ambiguity of the requirements should be cleared. Although claims for microinsurance should be paid very quickly after an insured event, the beneficiary should not be penalized if it takes longer to make their claim.

+/- It is critical to ensure that claims requirements are simple and manageable for low income beneficiaries, and only those documents that are absolutely necessary to prove the event should be required. Having to obtain more documents usually requires more time.

- A mandate for claims to be paid within a certain short period could have a retarding effect on microinsurance expansion. But, an environment should be created in which insurers are both able to and have an incentive to pay quickly.

+/- Documentation required for claims should be flexible, allowing for a variety of documents that recognize the abilities of low income beneficiaries, as long as the documentation proves the event occurred.

“When seeking to enhance access to inclusive insurance markets, innovative approaches to premium collection and claims payment – for example, by using different technological solutions - may require special attention (Standard 18.6 may require careful implementation in this respect).” (IAIS 3.11)

¹²³ Life Notification dated 30 December B.E. 2551 (2008). Prescription of rules on methods of issuing and offering insurance policy for sale via telephone; Non-life Notification dated 18 May B.E. 2551 (2008). Rules on methods for issuing and offering of insurance policy for sale and the performing of duty of Non-life insurance agent and Non-life insurance broker and bank

¹²⁴ Life Notification dated 30 December B.E. 2551 (2008). Rules on methods for issuing and offering of insurance policy for sale and the performing of duty of life insurance agent and life insurance broker and bank; Order Nos. 40/2011, 42/2011.

¹²⁵ Order nos. 9/2010, 23/2010, 26/2011,

Complaints. The Registrar may have any grievance relating to insurance, payment of compensation, monetary compensation, or other benefits under an insurance policy reviewed, and may arrange for resolution/settlement (LA §37/1; NLA §36/1).

+ This is positive; however, low-income people will need a more accessible mechanism of redress.

+/- Effective market education also has an important impact on consumer protection and the ability to better understand appropriate processes and to understand product value. With that knowledge, people need an accessible mechanism through which to pose their issues. For improved access, this will mean something beyond an ombudsman that has an office in Bangkok and does not reach out to people. Once the appropriate structure is present, market education should include means of addressing complaints.

“Supervisors should also analyze complaints against insurers and intermediaries, identifying inappropriate conduct” (IAIS 3.25). Thus, Supervisors should have a mechanism to track complaints.

+/- Providing a special ombudsman for microinsurance might be an appropriate approach to improving complaint reporting and resolution. This person / office would need to be proactive in establishing itself as the place for low-income policyholders to air complaints. However, it is important that insurers are able to address issues of their clients before clients contact the MI ombudsman.

ii. Analysis and recommendations: Consumer protection regulation

Consumer protection measures should pay closer attention to the needs and characteristics of consumers. In particular, some key issues include:

Low literacy levels and low capacity to understand complicated written policy provisions. While the template policies contain a simple summary of coverage, some important underlying details of coverage are not included in this summary. All of the most relevant details of the policy must be communicated to clients. Part of the difficulty is that the underlying details tend to be fairly complex (and possibly too complex) for low income clients; simplifying the coverage itself would make it easier to provide clear, simple summary documentation.

Especially low capacity to pay, which may not support the cost of detailed documentation. Documentation requirements must consider this constraint.

Limited ability and confidence in using traditional channels for complaints and dispute resolution. Access-seeking potential clients often have limited education and low literacy levels, and many live in remote areas, all of which limit their ability to access and effectively use traditional complaints mechanisms. Clients should not be expected to approach the Commission directly with problems, and channels for redress should be created with their needs and capacities in mind.

Prompt payment of claims is often especially important for low-income clients, but can also be particularly challenging for insurers. The template policies set quite stringent timing requirements for the policyholder to notify the insurer of a claim and submit documentation, but do not impose a parallel obligation for fast claims payment on the insurer. While fast claims payments can be very difficult for insurers to meet, particularly when products are too complex, some reasonable mandate for the timing of payments could be very valuable to insureds.

Responsibilities of both the insurer and the policyholder should be more clearly stated in insurance contracts. The template policies contain ambiguities on several important issues. For example, some require the policyholder to notify the insurer “immediately” or “as soon as possible” after an insured event. The obligations of the insurer to the client, and the client’s opportunities for redress if those obligations are not met, must also be clearly communicated.

2. Ancillary regulatory framework

This section summarizes regulatory areas outside of the insurance regulatory framework that impact the development of an inclusive insurance market. These include the financial system regulatory framework, regulation of electronic transactions, cooperative society’s regulation, and anti-money laundering measures. The relevant laws are listed in Table 32 and their implications for microinsurance are summarized below.

Table 32 Summary of ancillary laws impacting microinsurance

Law	Applicability
Financial Institution Business Act B.E. 2551 (2008)	Applies to financial institutions, which do not include insurance companies; governs permitted activities of such financial institutions, which include intermediation of insurance and establishing an affiliated insurance company.
Bank for Agriculture and Agricultural Cooperatives Act, BE 2509 (1966)	Establishes and governs activities of the Bank for Agriculture and Agricultural Cooperatives, which offers insurance but does not have an agent or broker license.
Government Savings Bank Act, BE 2489 (1946)	Establishes and governs conduct of the Government Savings Bank, which intermediates and underwrites insurance products.
Electronic Transactions Act B.E. 2544 (2001)	Applies to all civil and commercial transactions performed by using a data message.
Cooperatives Act, B.E. 2542 (1999)	Governs activities of cooperatives.
Anti-Money Laundering Act of B.E. 2542 (1999)	Applies to insurance companies and other financial institutions, and establishes standards regarding identification and documentation of customers and reporting of certain transactions.

a. Broader financial system regulatory framework

While most details of the financial system regulatory framework are not directly relevant to insurance or microinsurance, this subsection summarizes the most pertinent regulations which allow banks to distribute microinsurance, with significant limitations created by both the banking and insurance laws.

i. Regulation of commercial banks and other financial institutions

The **Financial Institution Business Act** B.E. 2551. (“FIBA”) applies to “financial institutions” (which do not appear to include insurance companies), with some requirements applying to the “financial business” of such financial institutions and related entities (FIBA §4). “Financial business” explicitly includes life insurance business, but does not appear to include non-life insurance.

Intermediation of insurance by banks is permitted by the Insurance Acts (see above). Commercial banks are permitted to act as life and non-life insurance brokers pursuant to regulation issued under FIBA. To do so, they must comply with the following:¹²⁶

“Set out written policies regarding the insurance agency business operations including details regarding the operational process and procedures, scope of responsibilities/accountability, risk management, measures to calculate registration or service fees charged to clients and insurance companies, and internal control systems. Further, these policies must be approved by the commercial bank’s board of directors;

Carry out strict examinations and monitoring to ensure compliance with the laws and other related regulations, and implement appropriate internal control systems;

Correctly and accurately recognize all incomes received from clients, non-life insurance companies, and life insurance companies, in return from acting as a non-life or life insurance broker or from providing other related services;

Collect and store all relevant documents at the commercial bank and shall be available for examination by the Bank of Thailand (BOT) at all times.”

The circular switches between referring to “agents” and “brokers” but seems to treat them as the same thing. These terms should be clear and consistently applied.

Marketing. Commercial banks not licensed as brokers/agents may “distribute promotional brochures of non-life and/or life insurance companies to their customers, for example, by placing them at the branch offices or mailing them to customers” and may receive compensation for this distribution.¹²⁷

Affiliated insurance company. FIBA requires permission of the Bank of Thailand before any financial institution establishes a “financial business group” (FIBA §54).

Composition. Financial business groups are composed of financial institutions and other companies which undertake financial businesses or supporting businesses with the following characteristics: (1) financial institution as the parent company and one or more companies as subsidiaries; or (2) non-financial institution as the parent company and a financial institution as subsidiary. (FIBA §53)

Permitted activities. Companies of a financial business group shall undertake only financial business or supporting business as prescribed in the notification of the Bank of Thailand and shall not undertake any commercial or other businesses (FIBA §56). This seems to prohibit a non-life insurer from forming part of a financial business group. Financial regulations for banks, MFIs, and SFIs should be clear in allowing these institutions to act as intermediaries for microinsurance.

Reporting. The Bank of Thailand may require a financial institution, parent company, subsidiary affiliate or company within the financial business group of such financial institution to submit reports or information in any means of media, or present any document periodically or occasionally as prescribed by the Bank of Thailand, as well as to require an explanation to clarify or amplify such report, information or document in accordance with the rule as prescribed in the notification of the Bank of Thailand (FIBA §71).

¹²⁶ Circular 1/ 2545 Re: BOT Notification re: Permission for Commercial Banks to Undertake Business as Non-Life and Life Insurance Brokers, issued by the Bank of Thailand (20 December 2001 (B.E. 2544)).

¹²⁷ Circular 196/2545 Re: Permission for Commercial Banks to Distribute Promotional Brochures of Insurance Companies (22 January 2002).

Payments. Commercial banks may allow insurance companies to provide services via automated machines used for deposit and withdrawal, telephone banking system, or office banking system, subject to the requirements set forth in the Circular.¹²⁸

ii. Agricultural Cooperatives

The **Bank for Agriculture and Agricultural Cooperatives Act**, BE 2509 (1966) (BAAC Act) establishes and governs activities of the BAAC. The BAAC has “the objectives of providing financial assistance in order to promote the occupations or work management of farmers, farmers' groups or agricultural cooperatives as well as to promote farmers, farmers, groups or agricultural cooperatives to engage in other occupations related to agriculture in order to increase their household income.” (BAAC Act Sec. 9)

Insurance intermediation. Section 10 of the BAAC Act gives the BAAC power to carry out activities within the scope of these objectives, including listed activities (which do not mention insurance). BAAC offers insurance products to its borrowers though it is not licensed as either an agent or a broker. Thus BAAC has no formal regulatory or supervisory linkage to the OIC.

iii. Government Savings Bank

The **Government Savings Bank Act**, BE 2489 (1946) (GSB Act) establishes and governs conduct of the Government Savings Bank (GSB), which intermediates and underwrites insurance products.

Insurance intermediation. The GSB has the purpose of conducting business listed in Section 7, which does not explicitly mention insurance but includes “any businesses which are considered to be banking businesses as may be determined by Royal Decree.” The GSB maintains an agency license for the various products it sells for which the risk is borne by a commercial insurer.

Insurance products. GSB also offers savings linked insurance products (endowments) for which the GSB retains the insurance risk under the GSB Act.

b. Electronic commerce framework

The **Electronic Transactions Act** B.E. 2544 (2001) (“ETA”) applies to all transactions performed by a data message, and sets standards for the content and effect of such messages. It is particularly relevant to microinsurance, as it opens doors to using mobile technology to distribute microinsurance. Electronic Transaction Commission is charged with supervision of the ETA and has authority to issue regulations thereunder (ETA §37).

Applicability. A “data message” means information generated, sent, received, stored or processed by electronic means, such as electronic data interchange (EDI), electronic mail, telegram, telex or facsimile (ETA §4). The ETA applies to all civil and commercial transactions performed by using a data message, except any excluded by royal decree (ETA §3); no transactions related to insurance appear to be excluded.

Legal effect of a data message. A data message can take the place of a written document, and have the same legal effect.

Where the law requires any transaction to be made in writing, evidenced in writing or supported by a document which must be produced, if the information is generated in the

¹²⁸ Circular 1424/2532 Re: Allowance for Insurance Companies to Provide Services Through Automated Deposit and Withdrawal Machines and Other Electronic Means issued by the Bank of Thailand (6 September B.E.2532 (1989)).

form of a data message which is accessible and usable for subsequent reference without its meaning being altered, it shall be deemed to be in writing (ETA §8).

An **offer or acceptance** in entering into a contract may be expressed by means of a data message (ETA §13).

An **electronic signature** is considered to be a reliable electronic signature if it meets the following requirements:

- (1) the signature creation data are, within the context in which they are used, linked to the signatory and to no other person;
- (2) the signature creation data were, at the time of signing, under the control of the signatory and of no other person;
- (3) any alteration to the electronic signature, made after the time of signing, is detectable; and
- (4) where a purpose of the legal requirement for a signature is to provide assurance as to the completeness and integrity of the information and any alteration made to that information after the time of signing is detectable (ETA §26).

The Insurance legal framework requires a physical receipt for insurance transactions. This requirement should be reconciled with the Electronic Commerce Framework to allow for greater flexibility in microinsurance provision.

c. Cooperative framework

The **Cooperatives Act**, B.E. 2542 (1999) (“Coop Act”)¹²⁹ governs cooperatives, which are supervised by the Minister of Agriculture and Cooperatives. A Cooperative is established by registration, with the minister, and “must have as its objects the promotion of socio-economic interests of the members by means of self-help and mutual assistance in accordance with the cooperative principles” (Coop Act §33).

Authority to engage in insurance business. “For the purpose of carrying out its objects, a cooperative shall have the power to do the following: (1) to carry on business, production, commerce, service and industry for the members’ benefits; (2) to provide appropriate welfare or relief to the members and their families;...[and] (9) to carry on all other affairs in connection with, or relating to, the fulfillment of the objects of the cooperative” (Coop Act §46). While these authorities do not explicitly mention insurance transactions, such transactions might fall under the more general powers listed above. However, since these entities do provide insurance as risk taker, these insurance activities should come under the supervisor of the Insurance Commission to ensure effective oversight and consistency in insurance legalities.

d. Anti-money laundering framework

The **Anti-Money Laundering Act** of B.E. 2542 (“AML Act”) applies to “financial institutions,” which it defines to include insurance companies, and sets standards regarding identification and documentation of customers and reporting of certain transactions for the purpose of combatting money laundering.

¹²⁹ Available at <http://www.fsct.com/english/download/TranslationTHECOOPERATIVES.pdf>

Reporting. The institution must report any transaction above a prescribed value or that is a “suspicious transaction”¹³⁰ (AML Act §13, 14). Such reporting is unlikely to apply to a microinsurance transaction.

Customer identification. Financial Institutions must require customers to **submit identification** prior to conducting any transaction on behalf of a customer, as provided by Ministerial Regulations, unless that customer has been previously identified (AML Act §20), and shall maintain all customer identification records for 5 years from the date of termination of the relationship with the customer (AML Act §22).

– These identification requirements increase transaction costs of microinsurance distribution, and are unlikely to respond to any real money laundering risk. Further, they may exclude some microinsurance clients who are unable to produce the required documentation.

As a financial service, microinsurance is, however, subjected to a country’s anti-money laundering regime. If this is done without recognition of its potential low-risk profile, this may increase transaction costs and create barriers to the take-up of insurance. In particular, obtaining Customer Due Diligence (CDD) documents such as proof of identity or address, or providing a photograph from prospective customers may pose a real barrier. *When customers of microinsurance cannot provide conventional CDD records, alternative approaches should be developed. (IAIS 4.47)*

When seeking to enhance access to inclusive insurance markets, supervisors should (Standard 22.1) (IAIS 4.48):

- (4.48.1) Determine the level of money laundering / terrorism financing risk posed by products targeted toward underserved markets in the jurisdiction; and
- (4.48.2) Based on the assessment, tailor the AML/CFT regime applicable to the particular risk level. This may entail simplified CDD requirements or alternative approaches.
- (4.48.3) The AML/CFT regulations for microinsurance need to provide for controls, which are risk-based and, therefore, not unnecessarily burdensome on the supervisors, insurers or public.

Regulations relating to AML/CFT need to allow for agents acting as the customer interface and as the extended servicing-arm of the insurers. They may need to allow for electronic transactions and documentation, which simplify, economize and speed up insurance activities. (IAIS 4.49)

In Thailand, providing basic insurance products to the underserved should come without having to apply the AML/CFT requirements. Given that Thailand has developed a definition for “Microinsurance” products and approves those products based on a set of standards that reflect inclusive principles, it could be appropriate to exempt approved microinsurance products from the AML/CFT requirements.

C. Conclusions and recommendations

Take active steps to develop a microinsurance market.

¹³⁰ “a transaction that is more complicated than the norm by which that transaction is usually conducted, a transaction that lacks economic rationale; a transaction where there is probable cause to believe that it was conducted for the purpose of avoiding the compliance of this Act” (AML Act §3(7)).

“The insurance supervisor should be given a lead role when seeking to advance inclusive insurance markets” (IAIS 1.8.13)

Developing the MI framework is a good first step, showing the OIC’s commitment to reaching the low income market with insurance. Further specificity is needed, and many of the concepts in the framework need to be incorporated into regulation. Adaptations may be required to enhance appropriateness, based on some of the suggestions made throughout this paper and based on experiences with the initial approach.

Adopt a policy on microinsurance as part of the broader goal of financial inclusion.

The IDP situates microinsurance policy within the OIC’s broader strategy for insurance development.

General efforts to expand microfinance and the provision of financial literacy and market education should include microinsurance and its role in a low income household’s risk management strategy.

Include microinsurance in specialized microfinance ombudsmen activities focused on improving access to the low income market. Such a merger of consumer protection access should improve the ability and comfort of low income people in enforcing their rights as financial service (and specifically microinsurance) consumers.

Elimination of the prohibition on linking banking products to insurance products would significantly improve the outreach of microinsurance, and may help to expand the outreach of other financial products (because the lender may be protected to some extent by the insurance).

Expanding the availability of distribution channels through reduced legal requirements may also help to improve the potential for financial inclusion.

Define a microinsurance product category.

Definition of microinsurance has not been incorporated explicitly into regulation. It is only incorporated through the Microinsurance Framework.

The Framework definition is quite broad in some ways (i.e. low and middle income target population), which may distract from the objective of serving the low-income market; however, being broad and inclusive is positive. For example, the new distribution channel related to 7-Eleven retailers may have a positive impact on distribution of insurance, however, it is generally acknowledged that this channel is one that attracts the middle income market. This is not a problem, except that the OIC should not see this as satisfying the need for getting appropriate products to the low income market. Other strategies are also required.

Maximum premium rates can be effective in defining microinsurance but should be different for different product types.

“Fast track” product approval can help encourage innovation, reduce costs.

In Thailand, there is a rather clear understanding of the core components of the framework – microinsurance premiums are less than certain maximums, MI products are “simple”, they have few exclusions, and others. However, the implementation of these core components is in the early stages of real implementation. Clarity to insurers will help to promote products that more effectively respond to the core components.

Currently approved MI products (see Appendix 3) generally do not include the detailed characteristics of microinsurance. These products fit within the overall premium caps, but otherwise tend to be more complex than good microinsurance products should be. Length of contracts, waiting periods, and exclusions, among other things in these policies, are generally not appropriate for inclusive insurance.

Tailor regulation to the risk character of the microinsurance product category.

The framework guides the general characteristics of microinsurance reflecting the risk character of the microinsurance market. However, implementation still reflects the traditional insurance requirements and some level of traditional complexity. A significant dialog between insurers and the OIC should take place to work out the details of what it means to be a microinsurance product in Thailand. Examples from other countries such as the Philippines might help in this effort. Possibly a structured visit to the Philippines could be effective in helping key market actors to better understand appropriate microinsurance product construction and operation.

Allow microinsurance underwriting by multiple entities.

Multiple types of entities are offering microinsurance as risk takers. However, these are often not linked to the OIC or the Insurance Legal Framework (cooperatives, SFIs, very large Funeral Aid Associations (FAA's) for example). Different entities should be able to offer microinsurance products; however, they should do so under a consistent regulatory framework.

Prohibition of foreign companies as insurers may be unduly restrictive. In many jurisdictions multi-national insurers have been first movers in inclusive insurance, and they tend to be the most innovative. Their experiences in other markets helps them to adapt and apply lessons in new countries.

The allowance of broad availability of microinsurer types should also extend to distribution channels, which should require minimal regulation and oversight by the OIC yet should be responsible to the insurers for whom they sell products.

Provide a path for formalization.

The accompanying microinsurance supply paper outlines several entities that should be formalized in a manner reflective of the risk character of their activities. Presently some of these (GSB, Cooperatives) operate under a formal Act that does not include effective oversight for insurance operations. Others, like the very large FAAs, operate under no regulations. There is no clear path to formality other than the outlined agent, broker, and insurer requirements. The OIC should assess the risk to having these entities operating outside any insurance regulatory / supervisory oversight. From there, if deemed necessary, such entities should gradually come under proportional regulatory oversight in a step-by-step manner.

Create a flexible regime for the distribution of microinsurance.

Microinsurance expansion is almost completely reliant on distribution channels. As in Thailand, traditional agents are not interested selling microinsurance (at least not voluntarily on a one-to-one basis). Commissions on tiny premium leave little for them to feed their families, while with their insurance agent's license they could be selling to the upper market and making significantly more money. Thus, a greater, and more creative incentive is required.

Major new distribution channels are becoming operational for microinsurance including Counter Services (linked to 7-Elevens) and the Post Office (in process to become a microinsurance agent). However, the licensing process for acting as an agent or broker is onerous and time consuming. Microinsurance products are simple and in the spirit of proportionality should not require a significant regulatory burden. Onerous and time consuming processes will limit potential channels and thus will limit microinsurance outreach.

Restriction on bundling significantly limit distribution options. One of the primary means of building an insurance culture in other jurisdictions is through bundled products. When people purchase one product there is a link to microinsurance. This helps expand risk pools, reduce premiums, and incentivize insurers as well as financial and consumer retailers. These benefits lead to a higher volume of claims, which results in more people observing and experiencing the benefits of insurance. All this leads to the building of an insurance culture. In Thailand currently, microinsurance is a voluntary market, hindered by relatively high premiums, adversely selected insureds, and relatively slow growth in the midst of the large market in need of good coverage.

Facilitate the active selling of microinsurance.

The OIC and the Thai Government in general clearly desire insurance expansion. Much has been done thus far to try to facilitate such expansion. The conceptual framework is present, but greater efforts to really fulfill the characteristics of microinsurance are still needed. Additionally, examples like that of the Philippines should be considered in terms of active government facilitation of insurance inclusion.

Monitor market developments and respond with appropriate regulatory adjustments.

Little is done at present to monitor the progress of microinsurance from either the demand or supply side. Gathering data on microinsurance supply for this study was a major effort. Even when the OIC and FPO were asked for specific information on microinsurance activities, getting results took months, and the information was still incomplete. Without understanding the market in a rather detailed manner, it will not be possible to effectively oversee the microinsurance aspects of the insurance market in Thailand.

At present, microinsurance is the responsibility of no one in the OIC. The OIC should identify a core group of key individuals to staff a microinsurance office within the OIC. This unit would be able to focus on the microinsurance issues while building internal capacity to effectively provide information and policy guidance for what will be (by number of clients) by far the largest part of the insurance market in Thailand. Such a focus will be key to the success of insurance inclusion.

A regular set of reporting requirements for accessible insurance should be implemented in Thailand. The required data should directly enhance the knowledge of the OIC on microinsurance operations and results. Only necessary data should be required in proportion to the risk of the microinsurance market. Supervisors should be continuously aware that any additional requirements on insurers may add costs and time to the efforts of microinsurers. If these are too great, insurers will abandon microinsurance or not enter the market.

Use market capacity to support supervision in low-risk areas.

Truly simple products offered to an educated market by agents who are responsible to an insurer that is accountable for all its microinsurance activity, offer limited room for disputes. Enforcing rules on insurers and providing effective market education, while pushing for extremely simple products in the product development process will help to limit the required inputs of the OIC in low risk areas. The addition of access to a proactive ombudsman should

help to manage consumer protection. By creating the infrastructure for good microinsurance, supervision can be more effectively managed even in areas where the supervisor might be limited.

Innovation is crucial to promoting widespread, effective access to insurance, and the regulatory approach should enable innovation. *“Recently, various insurers and intermediaries (among them commercial actors) have started to design innovative products and delivery models that fit the requirements of low-income populations rather than simply present miniaturized versions of conventional products. Embedded products – insurance covers tagged along with other products – and group cover proved to be effective. To achieve scale, curtail costs, and enhance access, more insurers are expected to innovate with new products, and distribution and servicing models. At the same time, it is also crucial to make sure customers understand the choices they make, their duties and rights, and are empowered to exercise their rights.” (IAIS 1.23)*

Regulation and supervision needs to permit innovative approaches while protecting policyholders. (IAIS 3.3) The framework is in place, yet there is still much work to be done to develop and offer good microinsurance products to massive numbers of people in Thailand.

There are many recommendations and suggestions sprinkled throughout this paper. **Error! eference source not found.** Below is a summary of the key recommendations with a priority indicator to help readers in considering strategic planning around the issue of improving microinsurance access. Recommendations are identified by priority in terms of short (S) and medium (M) term as well as the priority within the term (1 is the highest priority and 3 is the lowest, though still important).

Table 33 Summary of key recommendations

Category of regulation	Priority	Recommendations
Institutional and corporate governance framework	S1	<ul style="list-style-type: none"> consider the proportional risk related to other insuring entities continuing without OIC licensure; it may be would be appropriate to provide a transitional approach allowing them a path to formality
	S2	<ul style="list-style-type: none"> if deemed appropriate to develop a path to formality create a strategy for formalization
Product-relevant regulation	S1	<ul style="list-style-type: none"> a greater understanding of “microinsurance” and its implications in practice should be provided both within the OIC and with insurers. Microinsurance training workshops would be helpful in clarifying these issues and creating an understanding of how to implement “microinsurance”
	S1	<ul style="list-style-type: none"> some of the standards for a variety of features of microinsurance products would benefit from further clarity and specificity, such as requirements for “fast and easy” claims
	S1	<ul style="list-style-type: none"> there may be scope for detailed and structured visits to other jurisdictions to experience how these others help insurers to understand the microinsurance paradigm shift. The Philippines would be an excellent option.
	S1	<ul style="list-style-type: none"> broader options should be allowed for distribution and premium collection to ensure that microinsurance reaches a broader range of clients;
	S2	<ul style="list-style-type: none"> some “microinsurance” products components are not sufficiently simple or otherwise inclusive; for example, a waiting period of 180 days is too long to be appropriate for low-income clients. These should be simplified based on a clear approach to the risk that these issues are trying to address.
	S2	<ul style="list-style-type: none"> prohibiting compulsory bundling with loans and potentially other products can limit opportunities not only for microinsurance market development, but for effective expansion of credit markets. Consider a

		process to allow bundling for “microinsurance”
	S2	<ul style="list-style-type: none"> product approval process should be clarified and simplified; there should be a “Fast Track” if insurers comply with the framework
	S2	<ul style="list-style-type: none"> the policy itself must be very simple and only key info delivered to client (coverage, and how to make a claim). A general “master policy” approach with details to allow for simpler policy documents might be appropriate; the simpler policy would be provided to the policyholder while the “master policy” will be accessible. A “master policy” should not be a means to complicate microinsurance products
	S2	<ul style="list-style-type: none"> policy wording requirements should be revisited to improve simplicity
Prudential regulation	S3	<ul style="list-style-type: none"> during the transitional phase, informal entities should operate a restricted business model reflecting the extent that their business is lower risk, smaller, and less complex
	M1	<ul style="list-style-type: none"> to ensure consistency with insurance regulation and supervision, it would be beneficial for the OIC to take on the role of overall supervisor for insurance, including that provided by credit unions, cooperatives, and others
	S3	<ul style="list-style-type: none"> regular reports on the ten key performance indicators (KPIs) should be filed regularly and made publicly available by all Companies offering microinsurance products
	S3	<ul style="list-style-type: none"> collect microinsurance experience data to provide more targeted data on microinsurance and allow for more effective pricing of microinsurance products
Legal framework for microinsurance intermediation and sales	S1	<ul style="list-style-type: none"> further clarity and specificity in the regulations regarding training and licensure requirements for microinsurance agents should be considered in order to simplify the process yet also provide sufficient and appropriate training
	S2	<ul style="list-style-type: none"> consider developing a structure for the training of microinsurance agents that insurers would comply with when training agents.

	S2	<ul style="list-style-type: none">• consider passing the responsibility of oversight of microinsurance agents to the insurers for which they work.
	S3	<ul style="list-style-type: none">• any commission caps should be sufficiently flexible to account for the difficulty and uncertainty of distributing microinsurance, especially to the most marginalized populations
Consumer protection regulation	S2	<ul style="list-style-type: none">• consumer protection measures should pay closer attention to the needs and characteristics of consumers, such as literacy levels, ability to pay, and limits to accessibility. Yet they should not prove costly to insurers or distribution channels.
	S3	<ul style="list-style-type: none">• consider expanding the role of the ombudsman's office to include proactive outreach to microinsurance clients
Ancillary regulations	S2	<ul style="list-style-type: none">• the Insurance legal framework requirement for a physical receipt for insurance transactions should be reconciled with the Electronic Commerce Framework to allow for greater flexibility in microinsurance provision
	S2	<ul style="list-style-type: none">• providing basic insurance products to the underserved should come without having to apply the AML/CFT requirements, which increases transaction costs of microinsurance distribution, and are unlikely to respond to any real money laundering risk. Consider a waiver for "microinsurance"

VI. THE WAY FORWARD

Though more than 18 million people in Thailand have some sort of microinsurance coverage, there are still millions more with limited or no access to quality microinsurance products. Substantial work is still to be done in order to achieve an insurance culture and a truly vibrant microinsurance market in Thailand.

The Government of Thailand clearly supports the dramatic expansion of microinsurance throughout the Country. Efforts to expand the involvement of the commercial sector in terms of both risk takers and distribution channels while improving the infrastructure for microinsurance can help to improve the potential for achievement of the targets of the 2010-2014 Financial Sector Master Plan, as well as help to secure the future stability of millions of Thai households. This report has identified gaps, opportunities, and potential next steps regarding the supply, demand, and regulation of microinsurance in Thailand.

Microinsurance in Thailand has been defined through a framework developed by the Office of the Insurance Commission. This Microinsurance Framework, supported by a series of OIC Commissioner's Orders is designed to guide insurers in the development and offering of microinsurance and is a good first step in advancing inclusive insurance markets in Thailand. This effort emanates from the Financial Sector Master Plan for 2010 through 2014 which clearly promotes the development and implementation of microinsurance and sets rather aggressive penetration and density targets. **Although it unlikely that these targets will be met, the efforts show a clear intention by government to promote the benefits of insurance among those that have had limited to no access to those products.**

A. Thai context

Thailand boasts one of the largest economies in Southeast Asia, a low poverty rate, and has recently moved in classification from a lower-middle income to an upper-middle income country. However, inequality remains an issue within the country, most notably in the North and Northeast regions which are still exhibiting much higher rates of poverty comparatively. Microinsurance is an important tool for poverty eradication and can be a solution and new angle that can be taken in the country. Thailand is characterized by a majority informal economy and majority rural population. Although the government provides services to the informal sector and low-income populations with its large social welfare programs, these public resources are not always equally allocated and sustainability as well as service quality are other important issues to consider.

Doing business seems to be relatively easy due to regulatory reforms in the country. In addition, access to banking appears to be high. However, mobile banking is only in the nascent stages. This will be an important area to focus on in order to grow the microinsurance sector in the country and provide a platform for client access. Additionally, the microfinance sector is highly underdeveloped and mainly government-led with little private sector involvement at present. Nonetheless, it is clear that the OIC views microinsurance as a valuable tool for development in Thailand and supports and hopes to promote great growth in the sector.

B. Microinsurance supply

The number of Thai insured under different types of microinsurance schemes is displayed below in Table 15 as a summary.

Table 34 Overview of Microinsurance policy numbers by type

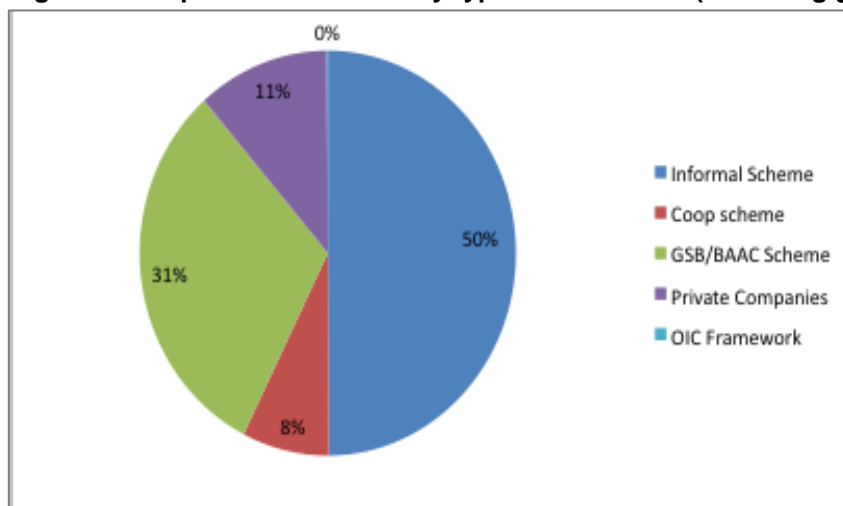
	<i>Public Schemes</i>	<i>Informal Schemes</i>	<i>Coop schemes</i>	<i>GSB/BAAC Schemes</i>	<i>Private Companies Products</i>	<i>OIC MI Framework Products</i>	<i>Total excl. public schemes</i>
Health	45,000,000				305		305
Welfare	786,000 ¹³¹	2,600,000	1,229,000				3,829,000
Personal Accident						9,783	9,783
Credit-Life			20,000	3,640,000			3,660,000
Funeral		6,680,000					6,680,000
Life		2,600,000	117,000	1,000,000		2,474	3,719,474
Industrial					2,050,000		2,050,000
Endowment			20,000	160,000		2,947	182,719
Retirement				998,000			998,000
Property						1033	85
Crop					56,000		56,000
Total	45,786,000	9,280,000 ¹³²	1,386,000	5,798,000	2,106,305	16,237	18,439,472

The proportion of microinsurance products offered by the private sector only accounts for 11.5% of insureds. This represents a major imbalance between the public and private sector in general. However, this imbalance is focused on the universal coverage offered by the government. Outside of that coverage, government intervention is rather limited. Figure 10 above illustrates well the distribution of insured by risk carrier for all types of risks.

¹³¹ Art. 40

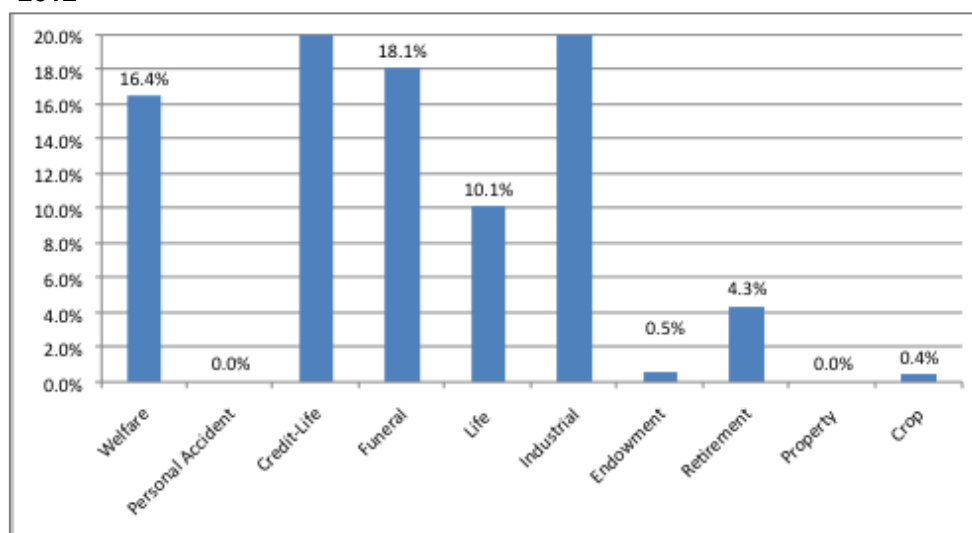
¹³² Welfare funds offer both welfare (hospitalization benefits as well as death benefits, thus are counted twice in terms of insureds by risk but once only in the total)

Figure 19 Proportion of insured by type of risk carrier (excluding gov't schemes)



Comparing the absolute figures with the potential target population numbers, we can assess the penetration of microinsurance among the low-income population¹³³. Figure 11 shows the penetration of microinsurance products by type of product.

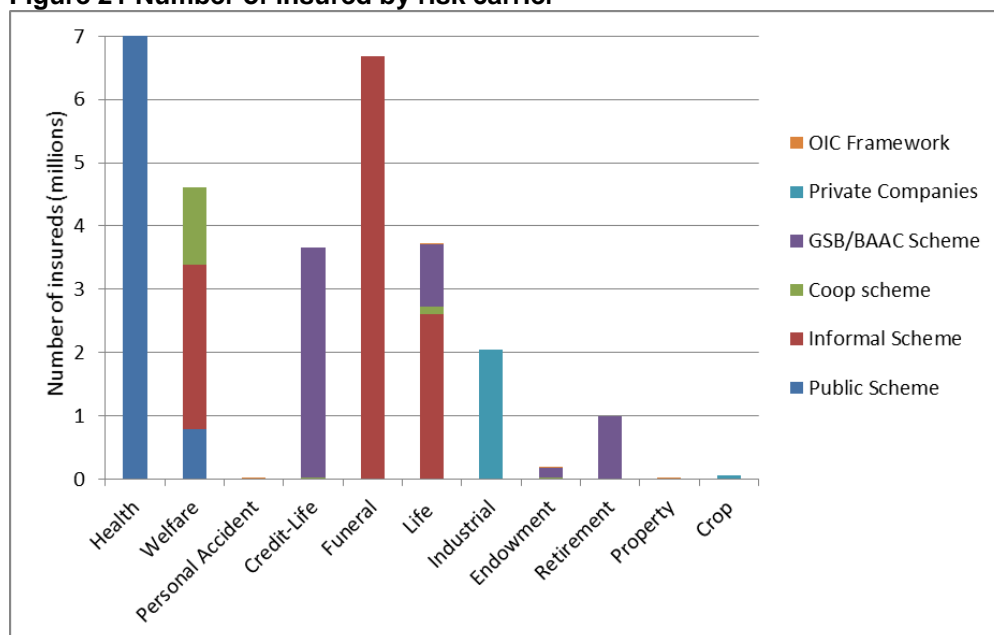
Figure 20 Penetration percentage of Microinsurance products by type of product as of 2012



The penetration figures remain very low with the exception of credit-life and industrial products. The penetration of the non-life products and longer-term products is almost negligible. It may seem that the penetration of microinsurance products is greater than that of other Asian countries. However, the proportion of insured covered by formal schemes is very limited, as shown in Figure 12:

¹³³ A table of the potential target segment numbers is available in Appendix 4. The numbers differ by product type, based on relevance, eligibility and size of target population.

Figure 21 Number of insured by risk carrier



In addition to the penetration of microinsurance products by risk type, one crucial element in this supply analysis is the eligible population and the actual access to the covers by the low-income population. The following Table 16 illustrates the depth of the penetration of microinsurance within the population, considering location and economic profile.

Table 35 Summary - profiles and accessible covers

	Economic profile	Life	Health	Agri	Property
Urban (34%)	Informal Sector Factory Worker Lower Middle Class	Act. 40 Industrial product GSB, Banks	UCS		No option
Rural (66%)	Farmer Informal Sector Lower Middle Class	Credit-life and life through coops and BAAC Funeral Associations, Informal schemes (CBO), Cooperatives and credit Union, Act. 40 Informal schemes (CBO), GSB		Only BAAC farmers (in 9 provinces for paddy WBI)	

Considering the urban-rural differences as well as the economic status of the target population, we can see that:

The rural non-farmers do not have options to access any formal insurance products

The rural population, other than BAAC borrowers, has very limited access to formal insurance solutions

No asset insurance is available to the Thai low-income population.

The factory worker, the informal urban sector and the lower middle-class have very limited options in terms of life products and none in terms of long-term products (such as endowments).

Considering the gaps in cover mentioned above, in order to address the weaknesses of the products and distribution channels currently offered to the low-income population, the Office of the Insurance Commissioner and the Ministry of Finance may join their efforts to:

Review the framework and regulation around microinsurance. Products currently sold to the low-income households are not simple nor adequate products for a population with limited financial literacy.¹³⁴

Promote the development of simple, valuable, tailored products by the private sector, to be offered through the State Financial Institutions (SFIs) and Civil Service Organizations (CSOs) through capacity building of commercial and cooperative insurers, offering incentives to these entities to explore the low-income market.

Address the issues related to distribution channels:

Enforcement of sanctions when agents do not respect their obligations/code of conduct and provision of a hotline to report complaints may help reduce fraud and foster trust among the rural and low-income population.

Micro-agents: This status has not promoted the distribution of microinsurance products and should be reviewed.

Rural areas: the needs of non-farmers and non-BAAC clients who have no access to products should be addressed by exploring broader options in terms of distribution.

Additional distribution channels: rural population has contacts with retailers and other service providers which could act as agents; e.g. agriculture retail.

Modes of payment: facilitating flexible premium payment such as mobile transfer and use of other points of contact (such as retailers) would enable people in rural and remote areas to avoid any opportunity cost which may act as barriers to access to and renewal of policies.

Ensure that products currently offered through BAAC and GSB are actually accessible through the branches and staff of BAAC (information at the branches, training of staff).

Review policies for the provision of social support in order to ensure that government efforts reach the most vulnerable and poorest segment of the population while creating an enabling environment for the private sector to offer complementing covers to the population. The government may particularly look into risks and target groups which the private sector will not try to reach in the short and medium term.

¹³⁴ Refer to the microinsurance regulation paper.

Support the Art. 40's promotion and review the NCIF and Pension schemes, as they do not reach the low-income target population by design.

Conduct further research on the UCS from a user's perspective in order to improve the services offered to the UCS beneficiaries.

Review the rural development policies to integrate insurance on a larger scale while providing other risk mitigation mechanisms (e.g. flood-proof infrastructure, training to farmers on preparedness).

C. Microinsurance demand

The Ministry of Finance and the Office of the Insurance Commissioner should undertake joint efforts around four main objectives.

Maximize current supply and distribution opportunities. The microinsurance already offered in Thailand takes various forms: from semi-formal community funds to commercial products offered through SFIs. With a population whose income has increased, the potential to increase the insurance penetration is considerable. As a first step, the Thai government needs to ensure that current products actually reach their target population effectively and efficiently:

BAAC should do a better job at informing the borrower members. This institution has a large outreach, both volume-wise and geographically. It already has partnerships with commercial players and its staff should be able to share information relative to microinsurance products (life and agriculture).

The Thai government has attempted to extend the social protection system to the informal sector. Yet low-income households are seldom aware of the existing schemes. Better information on government schemes available to LIHs and better targeting of the LIHs who will not be reached in the short-term by commercial insurers is required.

Insurance may be perceived as expensive for the poorer segment of the population. Some clusters of population remain underserved by semi-formal and formal credit systems. Community bank and microfinance services development should be supported in all provinces, as they are the first step to avoid recourse to usury services which keep the population in poverty and prevent savings and access to other financial products.

The GSB, the Islamic Bank and the Small and Medium Enterprise Development (SME) Bank do not offer products suitable for LIHs and the middle-class. They should be used to reach the middle class in order to push the insurance access frontier.

Increase distribution options and improve product adequacy. The products reviewed during the supply analysis and the actual target population show that the Ministry of Finance (MOF) and Office of Insurance Commission (OIC) should review the regulation and the superintendent's process to ensure that appropriate products are distributed in an adequate and optimal manner to segments currently uninsured:

The commercial products reviewed are not tailored by private players to match the needs and specificities of the low-income population and of a population with little experience with insurance. Therefore OIC and MOF should consider:

Modifying the regulation and product review process to ensure that adequate, simple products are offered.

Supporting insurers which have professional staff but need to be trained on microinsurance product development and best practices.

The rules on distribution channels should be reviewed to ensure that all suitable distribution channels are explored and that providers take advantage of them to reach the largest number of people possible.

Risks for which demand has been identified include: health, death (natural and accidental) as well as disability. Some of these are thus probably unaddressed by the current public schemes, and covers should be offered by public schemes to the poorest while the above the poverty line population should have access to privately-developed adequate covers (such as hospital cash or term-life covers).

Review the regulation to ensure effective information. Some aspects of the regulation may be improved based on the feedback of the target population interviewed during the demand research:

The demand research shows that the population accesses various providers of financial services: Credit Unions, Microfinance Institutions, non-governmental organizations (NGOs), retailers as well as the SFIs. They fall under different regulation frameworks and different ministries' scope of jurisdiction. The government should ensure that all regulators coordinate their efforts.

Trust towards insurers has been impacted by the fraud which has occurred, mainly on the premium collection process by individual agents. This should be addressed if trust is to be regained. Both prevention and enforcement of regulation are required to achieve this goal.

One additional trust-building mechanism would be to make information and complaints services available through an ombudsman and a free information line for all Thais (not only for microinsurance target population). Such a number could be displayed on all insurance documents (leaflet, policies, certificate of insurance, etc.) to provide recourse to the population, especially in rural areas, as insurers' offices are not easily accessible.

Foster an insurance culture. Most respondents have mentioned their lack of knowledge about insurance products and mechanisms. Some financial education activities may be considered as part of the education system (similar to the South African effort in high schools), with a larger goal of reaching both low-income and middle-class Thais.

D. Microinsurance regulations

Take active steps to develop a microinsurance market.

"The insurance supervisor should be given a lead role when seeking to advance inclusive insurance markets" (IAIS 1.8.13)

Developing the MI framework is a good first step, showing the OIC's commitment to reaching the low income market with insurance. Further specificity is needed, and many of the concepts in the framework need to be incorporated into regulation. Adaptations may be required to enhance appropriateness, based on some of the suggestions made throughout this paper and based on experiences with the initial approach.

Adopt a policy on microinsurance as part of the broader goal of financial inclusion.

The IDP situates microinsurance policy within the OIC's broader strategy for insurance development.

General efforts to expand microfinance and the provision of financial literacy and market education should include microinsurance and its role in a low income household's risk management strategy.

Include microinsurance in specialized microfinance ombudsmen activities focused on improving access to the low income market. Such a merger of consumer protection access should improve the ability and comfort of low income people in enforcing their rights as financial service (and specifically microinsurance) consumers.

Elimination of the prohibition on linking banking products to insurance products would significantly improve the outreach of microinsurance, and may help to expand the outreach of other financial products (because the lender may be protected to some extent by the insurance).

Expanding the availability of distribution channels through reduced legal requirements may also help to improve the potential for financial inclusion.

Define a microinsurance product category.

Definition of microinsurance has not been incorporated explicitly into regulation. It is only incorporated through the Microinsurance Framework.

The Framework definition is quite broad in some ways (i.e. low and middle income target population), which may distract from the objective of serving the low-income market; however, being broad and inclusive is positive. For example, the new distribution channel related to 7-Eleven retailers may have a positive impact on distribution of insurance, however, it is generally acknowledged that this channel is one that attracts the middle income market. This is not a problem, except that the OIC should not see this as satisfying the need for getting appropriate products to the low income market. Other strategies are also required.

Maximum premium rates can be effective in defining microinsurance but should be different for different product types.

"Fast track" product approval can help encourage innovation, reduce costs.

In Thailand, there is a rather clear understanding of the core components of the framework – microinsurance premiums are less than certain maximums, MI products are "simple", they have few exclusions, and others. However, the implementation of these core components is in the early stages of real implementation. Clarity to insurers will help to promote products that more effectively respond to the core components.

Currently approved MI products (see Appendix 3) generally do not include the detailed characteristics of microinsurance. These products fit within the overall premium caps, but otherwise tend to be more complex than good microinsurance products should be. Length of contracts, waiting periods, and exclusions, among other things in these policies, are generally not appropriate for inclusive insurance.

Tailor regulation to the risk character of the microinsurance product category.

The framework guides the general characteristics of microinsurance reflecting the risk character of the microinsurance market. However, implementation still reflects the traditional insurance requirements and some level of traditional complexity. A significant dialog between insurers and the OIC should take place to work out the details of what it means to be a microinsurance product in Thailand. Examples from other countries such as the

Philippines might help in this effort. Possibly a structured visit to the Philippines could be effective in helping key market actors to better understand appropriate microinsurance product construction and operation.

Allow microinsurance underwriting by multiple entities.

Multiple types of entities are offering microinsurance as risk takers. However, these are often not linked to the OIC or the Insurance Legal Framework (cooperatives, SFIs, very large Funeral Aid Associations (FAA's) for example). Different entities should be able to offer microinsurance products; however, they should do so under a consistent regulatory framework.

Prohibition of foreign companies as insurers may be unduly restrictive. In many jurisdictions multi-national insurers have been first movers in inclusive insurance, and they tend to be the most innovative. Their experiences in other markets helps them to adapt and apply lessons in new countries.

The allowance of broad availability of microinsurer types should also extend to distribution channels, which should require minimal regulation and oversight by the OIC yet should be responsible to the insurers for whom they sell products.

Provide a path for formalization.

The accompanying microinsurance supply paper outlines several entities that should be formalized in a manner reflective of the risk character of their activities. Presently some of these (GSB, Cooperatives) operate under a formal Act that does not include effective oversight for insurance operations. Others, like the very large FAAs, operate under no regulations. There is no clear path to formality other than the outlined agent, broker, and insurer requirements. The OIC should assess the risk to having these entities operating outside any insurance regulatory / supervisory oversight. From there, if deemed necessary, such entities should gradually come under proportional regulatory oversight in a step-by-step manner.

Create a flexible regime for the distribution of microinsurance.

Microinsurance expansion is almost completely reliant on distribution channels. As in Thailand, traditional agents are not interested selling microinsurance (at least not voluntarily on a one-to-one basis). Commissions on tiny premium leave little for them to feed their families, while with their insurance agent's license they could be selling to the upper market and making significantly more money. Thus, a greater, and more creative incentive is required.

Major new distribution channels are becoming operational for microinsurance including Counter Services (linked to 7-Elevens) and the Post Office (in process to become a microinsurance agent). However, the licensing process for acting as an agent or broker is onerous and time consuming. Microinsurance products are simple and in the spirit of proportionality should not require a significant regulatory burden. Onerous and time consuming processes will limit potential channels and thus will limit microinsurance outreach.

Restriction on bundling significantly limit distribution options. One of the primary means of building an insurance culture in other jurisdictions is through bundled products. When people purchase one product there is a link to microinsurance. This helps expand risk pools, reduce premiums, and incentivize insurers as well as financial and consumer retailers. These benefits lead to a higher volume of claims, which results in more people observing and experiencing the benefits of insurance. All this leads to the building of an insurance culture.

In Thailand currently, microinsurance is a voluntary market, hindered by relatively high premiums, adversely selected insureds, and relatively slow growth in the midst of the large market in need of good coverage.

Facilitate the active selling of microinsurance.

The OIC and the Thai Government in general clearly desire insurance expansion. Much has been done thus far to try to facilitate such expansion. The conceptual framework is present, but greater efforts to really fulfill the characteristics of microinsurance are still needed. Additionally, examples like that of the Philippines should be considered in terms of active government facilitation of insurance inclusion.

Monitor market developments and respond with appropriate regulatory adjustments.

Little is done at present to monitor the progress of microinsurance from either the demand or supply side. Gathering data on microinsurance supply for this study was a major effort. Even when the OIC and FPO were asked for specific information on microinsurance activities, getting results took months, and the information was still incomplete. Without understanding the market in a rather detailed manner, it will not be possible to effectively oversee the microinsurance aspects of the insurance market in Thailand.

At present, microinsurance is the responsibility of no one in the OIC. The OIC should identify a core group of key individuals to staff a microinsurance office within the OIC. This unit would be able to focus on the microinsurance issues while building internal capacity to effectively provide information and policy guidance for what will be (by number of clients) by far the largest part of the insurance market in Thailand. Such a focus will be key to the success of insurance inclusion.

A regular set of reporting requirements for accessible insurance should be implemented in Thailand. The required data should directly enhance the knowledge of the OIC on microinsurance operations and results. Only necessary data should be required in proportion to the risk of the microinsurance market. Supervisors should be continuously aware that any additional requirements on insurers may add costs and time to the efforts of microinsurers. If these are too great, insurers will abandon microinsurance or not enter the market.

Use market capacity to support supervision in low-risk areas.

Truly simple products offered to an educated market by agents who are responsible to an insurer that is accountable for all its microinsurance activity, offer limited room for disputes. Enforcing rules on insurers and providing effective market education, while pushing for extremely simple products in the product development process will help to limit the required inputs of the OIC in low risk areas. The addition of access to a proactive ombudsman should help to manage consumer protection. By creating the infrastructure for good microinsurance, supervision can be more effectively managed even in areas where the supervisor might be limited.

Innovation is crucial to promoting widespread, effective access to insurance, and the regulatory approach should enable innovation. *“Recently, various insurers and intermediaries (among them commercial actors) have started to design innovative products and delivery models that fit the requirements of low-income populations rather than simply present miniaturized versions of conventional products. Embedded products – insurance covers tagged along with other products – and group cover proved to be effective. To achieve scale, curtail costs, and enhance access, more insurers are expected to innovate with new products, and distribution and servicing models. At the same time, it is also crucial*

to make sure customers understand the choices they make, their duties and rights, and are empowered to exercise their rights.” (IAIS 1.23)

Regulation and supervision needs to permit innovative approaches while protecting policyholders. (IAIS 3.3) The framework is in place, yet there is still much work to be done to develop and offer good microinsurance products to massive numbers of people in Thailand.

There are many recommendations and suggestions sprinkled throughout this paper. Table 36 below is a summary of key analysis and recommendations regarding the supply, demand, and regulation of microinsurance in Thailand.

Table 36 Summary analysis and recommendations

Analysis	Recommendations
Supply side	
<p>Market</p> <ul style="list-style-type: none"> -Private sector has had limited engagement in microinsurance, and their motivations and interests remain limited -Very limited number of products filed to OIC under Microinsurance Framework -Restrictive regulations – such as narrow agent definitions, long filing process time with OIC, and burdensome documentation requirements – prevent the set-up of new distribution channels 	<ul style="list-style-type: none"> -Promote the development of simple, valuable, tailored products by the private sector through capacity building of commercial and cooperative insurers, offering incentives to these entities to explore the low-income market - Review the framework and regulation around microinsurance
<p>MI products</p> <ul style="list-style-type: none"> -Capacity of insurers to implement MI paradigm shift is limited - Products currently sold to the low-income households are not simple nor adequate products for a population with limited financial literacy. 	<ul style="list-style-type: none"> - Promote the development of simple, valuable, tailored products by the private sector through capacity building of commercial and cooperative insurers, offering incentives to these entities to explore the low-income market - Review the framework and regulation around microinsurance
<p>Government</p> <ul style="list-style-type: none"> -Gov’t is seen as providing coverage to Thai population and ‘crowds out’ private insurers - Outreach of Art 40 and other government schemes is limited 	<ul style="list-style-type: none"> -Review policies for the provision of social support in order to ensure that government efforts reach the most vulnerable and poorest segment of the population while creating an enabling environment for the private sector to offer complementing covers to the population. - Support the Art. 40’s promotion and review the NCIF and Pension schemes, as they do not reach the low-income target population by design
<p>Distribution</p> <ul style="list-style-type: none"> -Penetration of MI coverage remains low, with the exception of credit-life and industrial products -Rural population in particular has limited access 	<ul style="list-style-type: none"> -Address the needs of non-farmers and non-BAAC clients who have no access to products by exploring broader options in terms of distribution, such as retailers -Facilitate flexible premium payment such as mobile transfer and use of other points of contact (such as retailers) would enable people in rural and remote areas to avoid any opportunity costs of access and renewal

<p>-MI distribution has been essentially limited to a few gov't-owned channels, while other channels with significant potential remain untouched</p>	<p>-Review the status of micro agents</p> <p>-Ensure that products currently offered through BAAC and GSB are actually accessible through the branches and staff of BAAC (information at the branches, training of staff)</p> <p>- Support the Art. 40's promotion and review the NCIF and Pension schemes, as they do not reach the low-income target population by design</p>
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Demand side	
<p>Risks</p> <p>-Most important risks are those that impact the ability of the breadwinner to work (accident, extended illness or disability, job loss for semi-formal employee, or damage to vehicle/shop)</p>	<p>-Covers most in demand (health, disability, and death) should be offered by public schemes to the poorest while the above the poverty line population should have access to privately-developed adequate covers (such as hospital cash or term-life covers).</p>
<p>MI products features</p> <p>-Commercial products reviewed are not tailored by private players to match the needs and specificities of the low-income population</p> <p>-Insurance is seen as inaccessible, with difficulties continuously paying expensive premiums for inappropriate coverage levels</p>	<p>-Consider modifying the regulation and product review process to ensure that adequate, simple products are offered</p> <p>-Support insurers which have professional staff but need to be trained on microinsurance product development and best practices</p> <p>- Promote the development of simple, valuable, tailored products by the private sector through capacity building of commercial and cooperative insurers, offering incentives to these entities to explore the low-income market</p>
<p>Distribution</p> <p>-The population accesses various providers of financial services such as Credit Unions, MFIs, NGOs, retailers, and the SFIs, which fall under different regulation frameworks and different ministries' scope of jurisdiction</p>	<p>-Ensure that regulators of the various frameworks coordinate their efforts.</p> <p>-Ensure that current products actually reach their target population effectively and efficiently by creating awareness among the low-income population of the government and BAAC schemes available to them, promoting the development of community banks and microfinance services in all provinces, and using the GSB, Islamic Bank and SME bank to develop and deliver products suitable to the middle class.</p>
<p>Trust and enforcement of regulation</p> <p>-Trust towards insurers has been impacted by the fraud which has occurred, mainly on the premium collection process by individual agents</p>	<p>-Regain trust by addressing fraud through both preventative efforts and ensuring regulations are enforced</p> <p>-Make information and complaints services available through an ombudsman and a free information line for all Thais</p>
<p>Education and Awareness</p> <p>-Most people are aware of insurance but have a lack of understanding of concepts such as premium and benefits and admitted that they need more information.</p> <p>-The Thai government has attempted to extend the social</p>	<p>- Incorporate financial education activities into the education system</p> <p>- BAAC should do a better job at informing the borrower members. This institution has a large outreach, both volume-wise and geographically. It already has partnerships with commercial players and its staff should be able to share information relative to microinsurance products (life and agriculture).</p>

<p>protection system to the informal sector. Yet low-income households are seldom aware of the existing schemes.</p> <p>-There is a lack of outreach to generate awareness about available services</p>	<p>- Better information on government schemes available to LIHs and better targeting of the LIHs who will not be reached in the short-term by commercial insurers is required</p>
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Regulations (Note: Recommendations are identified by priority in terms of short (S) and medium (M) term as well as the priority within the term (with 1 being high priority).

<p><i>Institutional and corporate governance framework</i></p> <p>-While there are no particularly burdensome limits on who may own and operate an insurance company in Thailand, the prohibition on private companies and limits on foreign ownership without approval of the Commission may limit market development</p>	<p>-(S1) Consider the proportional risk related to other insuring entities continuing without OIC licensure; it maybe would be appropriate to provide a transitional approach allowing them a path to formality</p> <p>-(S2) If deemed appropriate to develop a path to formality, create a strategy for formalization</p>
<p><i>Product-relevant regulation</i></p> <p>-There is a significant paradigm shift that microinsurance stakeholders – regulators, supervisors, insurers, actuaries, intermediaries and others – must make to develop an enabling environment for the successful proliferation of microinsurance</p> <p>- Many microinsurance-specific requirements are found in framework presentations and approved microinsurance policies, but have not been incorporated into specific regulations</p> <p>- While the Commission has set standards for a variety of features of microinsurance products, some would benefit from further clarity and specificity</p> <p>- Products themselves and the policy documents are not sufficiently simple or otherwise inclusive for the low-income market</p>	<p>-(S1) A greater understanding of “microinsurance” and its implications in practice should be provided both within the OIC and with insurers. Microinsurance training workshops would be helpful in clarifying these issues and creating an understanding of how to implement “microinsurance”</p> <p>-(S1) Provide further clarity and specificity for some of the standards for features of microinsurance products, such as requirements for “fast and easy” claims</p> <p>-(S1) There may be scope for detailed and structured visits to other jurisdictions to experience how these others help insurers to understand the microinsurance paradigm shift. The Philippines would be an excellent option.</p> <p>-(S1) Broader options should be allowed for distribution and premium collection to ensure that microinsurance reaches a broader range of clients;</p> <p>-(S2) Product components should be simplified based on a clear approach to the risk that these issues are trying to address. For example, a waiting period of 180 days is too long to be appropriate for low-income clients.</p> <p>-(S2) Prohibiting compulsory bundling with loans and potentially other products can limit opportunities not only for microinsurance market development, but for effective expansion of credit markets. Consider a process to allow bundling for “microinsurance”</p> <p>-(S2) Product approval process should be clarified and simplified; there should be a “Fast Track” if insurers comply with the framework, which will reduce administrative costs and barriers to product innovation</p> <p>-(S2) The policy itself must be very simple and only key info delivered to client (coverage, and how to make a claim). A general “master policy” approach with details to allow for simpler policy documents might be appropriate; the simpler policy would be provided to the policyholder while the “master policy” will be</p>

	<p>accessible. A “master policy” should not be a means to complicate microinsurance products</p> <p>-(S2) Policy wording requirements should be revisited to improve simplicity</p>
<p>Prudential regulation</p> <p>- Thailand does not have a separate set of licensing or prudential regulations applicable to microinsurance.</p> <p>- As in many other microinsurance markets, in Thailand a great deal of microinsurance is provided through Community-Based Organizations (CBOs) and other informal providers, as well as cooperatives, credit unions, and the GSB</p>	<p>-(S3) During the transitional phase, informal entities should operate a restricted business model reflecting the extent that their business is lower risk, smaller, and less complex</p> <p>-(M1) To ensure consistency with insurance regulation and supervision, it would be beneficial for the OIC to take on the role of overall supervisor for insurance, including that provided by credit unions, cooperatives, and others</p> <p>-(S3) Regular reports on the ten key performance indicators (KPIs) should be filed regularly and made publicly available by all Companies offering microinsurance products</p> <p>-(S3) Collect microinsurance experience data to provide more targeted data on microinsurance and allow for more effective pricing of microinsurance products</p>
<p>Legal framework for microinsurance intermediation and sales</p> <p>-The creation of a special category of microinsurance agents promises to facilitate distribution through the non-traditional channels that are typically most appropriate for microinsurance clients. However, the Commission has not yet issued regulations detailing the training and other licensure requirements</p> <p>-There are no special wage or commission caps for microinsurance agents, and those applicable to traditional insurance agents and to brokers would allow wages and commissions that are generally not appropriate for microinsurance</p>	<p>-(S1) Further clarity and specificity in the regulations regarding training and licensure requirements for microinsurance agents should be considered in order to simplify the process yet also provide sufficient and appropriate training</p> <p>-(S2) Consider developing a structure for the training of microinsurance agents that insurers would comply with when training agents.</p> <p>-(S2) Consider passing the responsibility of oversight of microinsurance agents to the insurers for which they work.</p> <p>-(S3) Any commission caps should be sufficiently flexible to account for the difficulty and uncertainty of distributing microinsurance, especially to the most marginalized populations</p>
<p>Consumer protection regulation</p> <p>-Regulation of consumer protection, includes issues such as marketing, content and delivery of policy documentation, cancellation of the insurance contract by the client or insurer, claims, and complaints and dispute resolution</p>	<p>-(S2) Consumer protection measures should pay closer attention to the needs and characteristics of consumers, such as literacy levels, ability to pay, and limits to accessibility. Yet they should not prove costly to insurers or distribution channels.</p> <p>-(S3) Consider expanding the role of the ombudsman's office to include proactive outreach to microinsurance clients</p>
<p>Ancillary regulations</p> <p>- The Electronic Transactions</p>	<p>-(S2) The Insurance legal framework requirement for a physical receipt for insurance transactions should be reconciled with the Electronic Commerce Framework to allow for greater flexibility in</p>

<p>Act B.E. 2544 (2001) (“ETA”) applies to all transactions performed by a data message, and sets standards for the content and effect of such messages. It is particularly relevant to microinsurance, as it opens doors to using mobile technology to distribute microinsurance. (e.g. a data message can take the place of a written document.)</p> <p>- As a financial service, microinsurance is, however, subjected to a country’s anti-money laundering regime, which sets standards regarding identification and documentation of customers and reporting of certain transactions</p>	<p>microinsurance provision</p> <p>-(S2) Providing basic insurance products to the underserved should come without having to apply the AML/CFT requirements, which increases transaction costs of microinsurance distribution, and are unlikely to respond to any real money laundering risk. Consider a waiver for “microinsurance”</p>
<p>Macro level</p>	
<p>The OIC and the Thai Government in general clearly desire insurance expansion. The conceptual framework is present, but greater efforts to really fulfill the characteristics of microinsurance are still needed.</p>	<p>-The OIC and the Thai Government in general clearly desire insurance expansion. The conceptual framework is present, but greater efforts to really fulfill the characteristics of microinsurance are still needed.</p> <p>-Adopt a policy on microinsurance as part of the broader goal of financial inclusion. General efforts to expanding microfinance, financial literacy and market education should include microinsurance, as should microfinance ombudsmen’s activities. Elimination of the prohibition on linking banking products to insurance products would significantly improve the outreach of microinsurance, and expanding availability of distribution channels through reduced legal requirements may also improve the potential financial inclusion.</p>

APPENDIX 1. UNIVERSAL COVERAGE SCHEME

Benefit package

The Universal Coverage Scheme provides a comprehensive benefit package. Benefits include curative services, health-promotion and disease-prevention services, rehabilitation services, and services based on traditional Thai or other alternative medical school practices. The Scheme also provides personal preventive services and health-promotion services to all Thai citizens. The triple-drug antiretroviral therapy (ART) which is considered as a standard of care for people living with HIV and AIDS has been integrated into the benefit package of the Scheme since 2006. In addition, since 2007, beneficiaries of the Universal Coverage Scheme have had access to chronic hemodialysis, continuous ambulatory peritoneal dialysis and renal transplantation. *(from ILO report)*

APPENDIX 2. NATIONAL CATASTROPHE INSURANCE FUND

<i>Insured Group</i>	<i>Claim Guideline Criteria</i>	<i>Deductible Amount</i>
Household	<p>Flooding (Sum insured of THB 100,000, or USD 3,300)</p> <ul style="list-style-type: none"> - Flooding in the building area: 30% of total liability (Sublimit) - Water level of 50 cm from the building floor: 50% of total liability (Sublimit) - Water level of 75 cm from the building floor: 75% of total liability (Sublimit). - Water level of 100 cm from the building floor: 100% of total liability (Sublimit). <p>Wind Storm/ Earthquake</p> <p>Claim amount will be paid based on actual damage but not exceeding the sum insured amount specified in the Catastrophe Insurance Policy.</p>	None

APPENDIX 3. APPROVED MICROINSURANCE PRODUCTS OF LIFE INSURANCE COMPANIES

Type	Company Name	Coverage	Sum Assured / Premium
1. Endowment	Muang Thai Life Assurance	<p><u>Coverage</u></p> <p>In case of insured death or alive at maturity date</p> <p>1.1 Muang Thai Yim Mang Mee (Microinsurance)</p> <p>Coverage Term 20 years</p> <p>Premium Payment Period 15 years</p> <p>1.2 Muang Thai Yim Man Jai</p> <p>Coverage Term 25 years</p> <p>Premium Payment Period 15 years</p>	<p>1) Maximum SA is 100,000 Baht</p> <p>2) Premium rate based on age is no more than 500 Baht per month</p>
2. Term Insurance	<p>2.1 Muang Thai Life Assurance</p> <p>2.2 Bangkok Life Assurance</p> <p>2.3 Allianz Ayudhya Assurance</p>	<p><u>Coverage</u></p> <p>In case of insured death</p> <p>2.1 Muang Thai Yim Mang Kong (Microinsurance)</p> <p>Coverage Term 5 years</p> <p>Premium Payment Period 5 years</p> <p>2.2 Bangkok Life Microinsurance</p> <p>Coverage Term 1 years</p> <p>Premium Payment Period 1 years</p> <p>2.3 Ayudhya Provisional 5/5 (Microinsurance)</p> <p>Coverage Term 5 years</p> <p>Premium Payment Period 5 years</p>	<p>1) Maximum SA is 100,000 Baht</p> <p>2) Premium rate based on age is no more than 1,000 Baht per year</p>

Type	Company Name	Coverage	Sum Assured / Premium
3. Accident (Microinsurance)	Muang Thai Life Assurance	<p><u>Coverage</u></p> <p>3.1 In case of insured die or become total permanent disability cause by accident 100,000 Baht</p> <p>3.2 Daily Indemnity during hospitalization caused by accident 200 baht per day (maximum 20 days)</p> <p>3.3 Funeral Expenses in case of insured die cause by illness or injury 10,000 Baht.</p>	Total premium is 450 Baht.
4. Personal Accident (P.A. Micro) & Hospital Care (Microinsurance)	Thai Life Insurance	<p><u>Coverage</u></p> <p>4.1 In case of insured die or become total permanent disability cause by accident 100,000 200,000 and 300,000 Baht</p> <p>4.2 Daily Indemnity during hospitalization caused by accident (maximum 20 days) 200, 400 and 600 Baht per day</p> <p>4.3 funeral Expenses in case of insured die cause by illness or injury 20,000 40,000 and 60,000 Baht.</p>	<p>Sum Assured is as mentioned in 4.1 to 4.3.</p> <p>Premium Rate is 500 1,000 and 1,500 Baht. There are 3 plans respectively.</p>

Type	Company Name	Coverage	Sum Assured / Premium
<p>5. Industrial Insurance</p> <p>Plan Khum Sud 365 and Plan khum Sud 500</p> <p>(Microinsurance)</p>	<p>Ocean Life Insurance</p>	<p><u>Coverage</u></p> <p>Coverage Term 1 years</p> <p>Premium Payment Period 1 years</p> <p>Plan Khum Sud 365</p> <p>- In case of insured die due to all causes within the coverage period, Company will pay sum insured. In case of insured die due to illness within 180 days from the policy effective date, company will refund all premium received to beneficiary.</p> <p>Plan Khum Sud 500</p> <p>- In case of insured die due to all causes within the coverage period, Company will pay sum insured. In case of insured die due to illness within 180 days from the policy effective date, company will refund all premium received to beneficiary.</p> <p>In case of insured die due to accident, company will pay double SA.</p>	<p>Premium Rate is 365 Baht. / SA based on age and gender.</p> <p>Premium Rate is 500 Baht. / SA based on age and gender.</p> <p>Example Insured age 20</p> <p>- Male, SA is 101,570 Baht</p> <p>- Female, SA is 162,820 Baht</p>

APPENDIX 4. TARGET POPULATION FIGURES

<i>Product Type</i>	<i>Potential Target population for Microinsurance</i>	<i>Rationale</i>
Welfare	23,280,000	All informal sector
Personal Accident	23,280,000	All informal sector
Credit-Life	15,000,000	Borrowers except w/ banks
Funeral	37,000,000	All work force
Life	37,000,000	All work force
Industrial	2,966,000	Factory population
Endowment	37,000,000	All work force
Retirement	23,280,000	Informally employed
Property	16,250,000	Number of households
Crop	15,080,000	Farmers 2007 NSO

APPENDIX 5. FGD GUIDELINE QUESTIONS

Introduction

(Open discussion, share opinions and experiences, no right or wrong answer, no sale, ask questions)

Description of the village/place where they live, their occupation and family composition.

- How much do you spend every week? (types of spending)
- How much do you save for the future? Where? % of total income?
- How much do you put aside for unplanned events?

Risks Identification and coping strategy

1. Which event(s) has(ve) resulted in financial stress for you and your family? What happened?
(un)expected death, health issue, loss of property, job loss...
2. How much money did you need to face this event? *(break down)*
3. How did you mobilize this amount?
(may depend on amount...)
(family and friends (donation), borrowing (emergency loans - from whom? workplace, friends, neighbours, moneylender, MFI, pawnshop, bank, credit union, ROSCA...), drawing on savings (% used), selling assets (which ones? amount obtained?), informal risk-pooling groups such as funeral associations or self-help groups (welfare funds, other?), increase income/additional earning activity, insurance, government funding [ranking]
(assess ease of access, amount obtained vs. cost of shock (impact), financing conditions (cost, effectiveness))
4. What are the other options you and your family members/friends have to mobilize money in such circumstances?
(same questions)

Based on the most common answers, explore further points on one risk type:

- ⇒ Health
 - What are the health care facilities available in your area? (health centre, hospital, local doctor, pharmacy, lab)
 - How do you get there? (mean/time/cost)
 - Perceived quality of healthcare services? (IP/OP)
 - Is everybody in your family enrolled in the 30-Bhat scheme?
 - Remaining barriers to access services? (medication, test access, loss of income...)
- ⇒ Life
 - What is the tradition for funerals in your family/community? (When/what)
 - What is a common cost for someone's funerals?
 - Do you get an amount from the welfare fund/state for funerals?
- ⇒ Property/Crop
 - At risk: crop, house, belongings, livestock, stock?
 - Main risk: theft, weather, fire?
 - Crop
 - What kind of crops do you produce? Primary/Secondary (acreage)
 - How many crops (e.g. up to 3 in Thailand for rice)? What are the risks you fear the most (pests, drought, floods)?
 - How do you stock it? Who do you sell to?
 - How much do farmers in your area earn per production cycle?
 - Is Ag their sole source of income?

- Which input do you use? Where do you purchase them?
- What kind of livestock and disease/risk?

Risk ranking

Among the risks the group mentioned in the first part of the discussion, how would you rank them by importance in terms of impact/financial stress for you and your family? (as small group – 3-4 people)

<i>Illness episode (surgery/hospitalization/OP)</i>	<i>Damage to HH property</i>	<i>Life cycle events: education, retirement</i>
Disability of a household member (/breadwinner)	Damage to production/business tools	
Death of a household member	Crop failure	
Chronic Illness	Livestock loss	

Insurance awareness

1. Have you ever heard about insurance? (concept/different risks)
2. Does anybody have insurance (what for/through which org), or any family member?
3. What does it mean to pay a premium/contribution, receive a claim?
4. What do you think about insurers/financial institutions? (trust, image)
5. Probe any cultural reluctance.
6. Do you have access to social security schemes?

Varia

1. Where do you go to make purchases, access government services?
2. Do you belong to an association, union, cooperative or other community organization?
3. Do you have a bank account, a credit? (w/ whom)

APPENDIX 6. RANKING GIVEN BY FGD PARTICIPANTS TO RISKS

Risks/Group	Surin				Nakhon Si Thammarat					
	1 - Self-Employed Men	2 - Employed Women	3 - Farmers	4 - Farmers	5 - Muslim Women (Coastal)	6 - Muslim Fishermen	7 - Farmers (Valley)	8 - Fishermen, very poor	9 - Farmers	10 - Farmers
Accident			4	4	3	2	1	4	3	3
Funeral		1	5	6	9	4	9	6	2	10
Disability	1	4	3	3	6	6	2	7	6	4
Chronic Illness	2	2	1	1	4	7	7	5	5	2
Illness	3	3	2	2	2	8	8	7	4	1
Death	4	1	6	5	7	3	3	2	1	6
Crop failure	5	5	7	7	N/A	N/A	4	N/A	8	7
Livestock	6	7	9	10	8	N/A	11	N/A	10	8
Retirement	7	8	10	9	10		10	9	9	11
Damage to Property		6	8	8	5	5	6	3	7	5
Damage to ship	N/A	N/A	N/A	N/A	1	1	N/A	1	N/A	N/A
Market price	N/A	N/A					5	8		9
Motorbike/Vehicle da	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Job loss			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Risks/Group	Bangkok - Saphan Kwai					Chainat				
	11 - Moto-taxi	12 - Self-employed	13 - Semi formal workers	14 - Tuk Tuk/Taxi drivers	15 - Semi formal workers and self employed	16 - Semi formal workers	17 - Farmers	18 - Farmers	19 - Farmers	20 - Farmers
Accident	4	6	3	4	1	3	9	4	5	1
Funeral	9	2	7	8	7	7	7	7	7	7
Disability	2	5	1	2	3	2	6	9	4	4
Chronic Illness	6	4	2	1	4	5	4	8	3	5
Illness	3	3	5	3	2	4	1	1	1	2
Death	1	1	4	6	6	8	5	6	2	3
Crop failure	N/A	N/A	N/A	N/A	N/A	N/A	3	3	8	
Livestock	N/A	N/A	N/A	N/A	N/A	N/A	11	11	11	9
Retirement	8	8	9	10	8	9	10	10	10	8
Damage to Property	7	7	8	7	5	6	2	2	6	6
Damage to ship	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Market price	N/A	N/A	N/A	N/A	N/A	N/A	8	5	9	
Motorbike/Vehicle da	5	N/A	N/A	9			N/A	N/A	N/A	N/A
Job loss	N/A		6	5		1	N/A	N/A	N/A	N/A

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