

A2ii: Scoping Note for Country Diagnostics

1. Purpose

This document describes the objectives, scope and approach to be followed in the individual country diagnostics to be undertaken under the auspices of the Access to Insurance Initiative (A2ii or Initiative). It also contains a typical work plan for such a country diagnostics as well as the proposed approach to resource and staffing the work.

2. Background and rationale

The Access to Insurance Initiative is a partnership between the International Association of Insurance Supervisors (IAIS), the German Federal Ministry for Cooperation and Economic Development (BMZ), the World Bank/CGAP, the International Labour Organisation (ILO) and the South Africa-based FinMark Trust (jointly referred to as the Sponsors). The relationship between the Sponsors is regulated by a Charter approved by all the Sponsors. The activities of the Initiative are directed and coordinated by a Secretariat hosted by the German Technical Cooperation (GTZ).

The purpose of the Initiative is to contribute to sound, effective and proportionate regulation and supervision of insurance markets – including the related policy issues - that will facilitate the growth of insurance for the poor/ low income clients. To achieve this purpose it will, amongst others, undertake in cooperation with various funders a series of country diagnostics on how regulation, supervision, and policy (RSP) impact the provision of microinsurance in selected countries, using a standardised methodology across all countries to ensure comparability. These diagnostics will include a more general assessment of the insurance regulatory and supervisory regime completed to IAIS standards. Following the completion of the country diagnostics the Initiative will, where appropriate and in cooperation with country regulators and supervisors, support policy processes and regulatory changes suggested by the recommendations emanating from the preparation of the country diagnostics.

The diagnostics completed at country level will, in parallel with country implementation processes, be fed into a synthesis process to extract cross-country learning that will contribute to the development of guidance and standards by the IAIS as well as global learning on the subject. The synthesis process will consist of a number of regional and/or global events drawing together persons who were engaged to undertake the country diagnostics as well as experts in the field. The cross-

country learning, supported by specific case studies drawn from the diagnostics, will also be used to develop training materials in various formats, targeted at two key audiences: (1) national insurance supervisors and (2) topic experts, industry practitioners and microinsurance champions on RSP issues.

The country diagnostics and consequential implementation activities will be funded by third party funders that contribute to the Initiative. Such third party funders will include some of the Sponsors, but in each case it will be a separate project from their support for the cross-cutting activities of the Initiative itself. The Initiative considers the existence of a willing funder as at least some indication of the likelihood that a country diagnostic undertaken by the Initiative will be followed by some change within the country concerned. To support this assumption, the willingness to cooperate and the ownership of the national supervisory body or another authority, to implement RSP related changes will be assessed during project preparations so as to ensure not only that the Initiative collects country evidence of the problem situation, but has a clear orientation towards implementation. However, such consequential change, though potentially supported by expertise and training generated by the A2II, will have to be driven by national and/or regional institutions and funding.

Choice of countries: It is anticipated that country diagnostics will be undertaken in approximately 18 countries during the next 3 years (starting in June 2009). These can include both IAIS member jurisdictions as well as jurisdictions that are not yet members of the IAIS. The choice of these countries will depend on a number of factors. In the first instance, it will depend on the availability of a funder to fund the study. The Initiative will work primarily with regional and global funders who wish to target a number of countries in a region and thus economise by coordinating project management, training and implementation across multiple countries. The Initiative will also ensure that the countries are representative of the major regions that have particular need for microinsurance. The Sponsors have already agreed in principle to work in Latin America, Asia and Africa. However, the Initiative will not work in any country unless the country diagnostic is supported by the national insurance regulator and supervisor who also acknowledge the potential need for regulatory change to facilitate the development of microinsurance markets.

3. Objectives

Overall objective: The overall objective of the country diagnostics is to identify key constraints imposed by policy, regulation and supervision on the development of microinsurance markets in each country and to develop recommendations to national policy-makers, regulators and supervisors on how these can be addressed.

Specific objectives: To achieve this overall objective and to achieve maximum leverage from these country diagnostics for the cross-cutting activities of the Initiative, the following specific objectives will be pursued:

- a. *Undertake a market analysis:* Each country diagnostic will conduct a demand-side, supply-side and regulatory analysis to map the insurance and microinsurance landscape in that country in order to identify the drivers of and challenges to microinsurance market development.
- b. *Investigate specific RSP issues emanating from Initiative work to date:* In addition to the RSP analysis undertaken as part of the identification of market drivers, each country diagnostic will investigate a set of specific issues identified during the first round of country diagnostics and in subsequent discussions with IAIS members as requiring further investigation to produce guidance to country authorities (policymakers, regulators and supervisors) wishing to design a microinsurance-friendly regime. These will include, amongst others, the following¹:
 - *Member-owned microinsurers:* How to regulate and supervise member-owned formal and informal providers of microinsurance, including mutual insurers, cooperatives and community-based institutions?
 - *Risk-based microinsurance regime:* What would a risk-based approach to creating a regulatory regime for microinsurance look like, including practical ways to reduce the regulatory burden on smaller providers of microinsurance? What are the principles for designing a tiering regime – what works and what not?
 - *Microinsurance products:* Are there definable product parameters within which insurance providers should be allowed to innovate when addressing the low income market? How should health insurance and index-based insurance (such as weather insurance) be dealt with in the microinsurance market)?
 - *Government/donor subsidies:* What are the RSP and market implications of large-scale government or donor subsidised microinsurance programs?
 - *Reinsurance:* What is the role of reinsurance in the provision of microinsurance?

¹ The issues raised in this paragraph b) were raised by the supervisors from 22 countries who attended the FSI conference on microinsurance held in Basel during September 2008. These were issues on which the supervisors had specific questions and requested follow-up work to provide better guidance. Not all of these issues will be relevant in all countries.

- *Financial education*: What are the effective approaches to financial education in the microinsurance market?
 - *Consumer protection*: How can policyholders be protected without overburdening the underwriter and thus making the microinsurance policy unviable?
 - *Supervision*: Alternative approaches to effectively supervising a significantly larger number of providers of microinsurance.
- c. *Review of the general regulatory and supervisory context for insurance*: The country diagnostics will include a review of the general regulatory and supervisory context using the IAIS Core Principles. This review is intended, firstly, to provide rigor and context to the targeted regulatory diagnostics mentioned above. Secondly, in some countries challenges of a supervisory or regulatory nature may exist that are not unique to the issue of access to insurance. The detailed conclusions on these will be provided to supervisors in a confidential report and will hopefully contribute to their dealing with such challenges. The broader conclusions will also feed into the overall country diagnostics.
- d. *Recommend a national access to insurance strategy*: Based on the findings of the scoping exercises above, each country diagnostic will propose potential strategies across all role players that will support the development of the microinsurance market in that country. Although the primary focus of the Initiative is policy, regulation and supervision, the comprehensive nature of the country diagnostics will yield recommendations not only for potential policy and regulatory change, but also for supply- and demand-side support. This strategy is to be developed in consultation with (and with the buy-in from) local stakeholders, in whose hands the implementation of this strategy will ultimately rest.
- e. *Support in-country dissemination and implementation*: After the completion of the country diagnostics, the Initiative will, where appropriate and requested to do so, support the wider dissemination of the findings within that country as well as the implementation of recommendations.
- f. *Provide input for international standard setting, guidance and learning*: Information and insights generated by country diagnostics will be used (with the permission of supervisors and market players) as input to IAIS standard setting, guidance and training processes as well as to build the wider awareness of microinsurance. As far as possible, national supervisors and market players will be requested to provide in person input at regional and global learning and awareness building events.

4. Scope

One of the strengths of the Initiative is the application of a uniform methodology to all country diagnostics undertaken under its auspices. This is required to ensure that results are comparable

across countries, fit to draw cross-country conclusions and able to provide credible input and feedback to the IAIS. The full methodology, that includes the analytical frameworks used, is contained in a separate document. In this section we define the scope of the investigation and in the next section the approach used.

Definition of microinsurance: Microinsurance is defined by the IAIS as “insurance that is accessed by [or accessible to²] the low-income population, provided by a variety of different entities, but run in accordance with generally accepted insurance practices (which should include the Insurance Core Principles). Importantly, this means that the risk insured under a microinsurance policy is managed based on insurance principles and funded by premiums”³. It therefore excludes social welfare as well as emergency assistance by governments, “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”.

Each country diagnostic will consider this definition of microinsurance in the domestic context. This has several dimensions, including the risk faced by low-income households and the various approaches to risk management (formal and informal), regulatory definitions of insurance and insurance categories, value and nature of the benefit, product structure and categories appropriate to the domestic low-income market (including those which may be appropriate but are not yet on offer). The cut off for the low-income market will differ from country to country and will in each case be determined in relation to existing government policies and market practices.

Geographic scope: Each country diagnostic will seek to cover a representative sample of as much of the national low income population as possible. This will in each case include both urban and rural low income population segments. However, in particularly large jurisdictions, the focus may be restricted to certain provinces or regions, agreed with the respective funder and national supervisor.

Product scope: The country diagnostic will investigate all forms of microinsurance available in a country including life, non-life and health insurance. The relative importance of these product categories will differ from country to country. In some countries agricultural insurance may also be of particular relevance. The scope will include contractual savings products, including pension products, managed on the basis of insurance principles. However, the diagnostics will exclude detailed investigation of the entire savings sector.

² Author’s own insertion, in recognition of the fact that people may choose not to use a financial service even if it is accessible to them.

³ IAIS, 2007. Issues in regulation and supervision of microinsurance. Available at: www.iaisweb.org

Health insurance: As indicated, health insurance is included in the scope. However, health insurance is part of a more complex health financing environment that is dependent on the domestic health services network and capacity. The diagnostics will not be able to provide a detailed review of the health services or broader health financing environment, but will cover the health financing sector as part of the scoping exercise (demand, supply and regulatory) to understand the current environment and how this links (or does not link) with the insurance sector. This should provide sufficient information to formulate conclusions and recommendations on how to support the development of this component of the financial sector as part of the access to insurance strategy.

Formal and informal: In many countries risk mitigation mechanisms for the poor are provided by both formal and informal insurance mechanisms. Moreover, informal mechanisms often provide important opportunities for developing the formal market. Both of these will be covered in the analysis. For the purposes of the country diagnostics formal financial products and services are defined as products or services which are provided by financial service providers that are registered with a public authority to provide such services. Informal financial services refer to everything that is not formal as defined and includes a wide range of providers. This may include providers who are institutionally registered (e.g. as a cooperative or as a healthcare provider), but not functionally registered, that is: not registered to provide insurance.

Full value chain: The country diagnostics will cover all aspects of the insurance value chain covering risk carriers (re-insurers, insurers), administrators, intermediaries and clients. In addition to an analysis of current risk carriers and available products, special attention will be paid to potential delivery channels, considering the insurance knowledge of potential aggregators of microinsurance consumers and their readiness to provide insurance. Cost effective distribution is paramount for the growth of microinsurance provision and the diagnostics will therefore seek to identify and analyse what delivery channels have the most potential to be successful insurance intermediaries, as well as the role that technology can play in facilitating distribution. Of particular importance will be the extent to which regulation inhibits the use of these distribution channels for microinsurance delivery.

Demand-side analysis: Diagnostics will include an analysis at the level of the consumer. Through qualitative and quantitative research of the low-income market, the key risks that they would be interested in covering through insurance will be identified and their familiarity and receptiveness to insurance will be assessed. This will be done through an analysis of existing household surveys (where these are available), as well as through focus group research among low-income consumers. Note that, with the exception of focus groups, the country diagnostics will not undertake primary surveys. The implementing teams will therefore be limited to existing data for quantitative information.

5. Approach (outline methodology)

This section sets out the substantive tasks to be performed as part of each country diagnostic to achieve the objectives set out above.

5.1 Market analysis

The market analysis seeks to develop an integrated picture of the forces that have shaped and will shape the development of the microinsurance market in a particular country. It has three distinctive components: a demand-side analysis, a supply-side analysis and a regulatory analysis.

Demand-side analysis: The demand-side analysis tries to paint a picture of the current usage of, as well as the potential demand for microinsurance products amongst the low income population in a country. Specific aspects to cover in the demand-side overview include:

- a. General economic and demographic profile: income levels, urbanisation, level and nature of employment and sources of income;
- b. Estimates of the current take-up of formal insurance and specifically any microinsurance products that can be identified;
- c. Estimates of the current take-up of informal means of risk mitigation;
- d. Specific risks faced in a country by low-income households as well as an appreciation of the priority given by low-income households to mitigating the various risks;
- e. The penetration of social welfare and other government support networks;
- f. Community structure and social cohesion determining whether, for example, mutual/cooperative risk management structures have evolved;
- g. Perceptions, knowledge and awareness by the poor of formal financial institutions and specifically insurance; and
- h. General picture of financial and economic management of low-income households to gain an understanding of how insurance may fit into this.

As far as possible the focus group research will be professionally outsourced. The discussion guides⁴ will be based on ones used in previous country diagnostics, but adapted in each case to local circumstances, local language and cultural orientation.

Supply-side analysis: The purpose of this component is to build an understanding of the players and products in the insurance market as well as the context in which they operate. This will cover the complete insurance value chain and will include consideration of issues such as:

- a. Overall insurance industry performance and trends including nature and categories of players and products in the market, nature of distribution and the entities involved, and the presence of foreign players;
- b. The presence of informal insurers and insurance mechanisms and their ability to link with the formal financial sector as well as the potential to formalise some of them. Not all informal providers of insurers may be illegal. In many cases they are simply unregulated;
- c. Government participation in the market as provider or intermediary or as client/aggregator;
- d. The broader financial sector on which the insurance sector relies. Relevant issues here include the penetration of bank accounts and the cost of utilising this for premium collection, the nature and development of the credit market including Microfinance Institutions, the state of the payment system, the environment around e-money and the availability of non-bank payment system partners (e.g. mobile phone networks);
- e. Economic context. This will cover the general economic trends and dynamics that may impact on the development of microinsurance. Issues of relevance include prevailing macro-economic conditions, substantial processes of economic restructuring and the level of formality in the economy (e.g. a large reliance on the informal economy means that incomes tend to be less secure and more erratic. It will also be more difficult to partner with informal employers for distribution.); and
- f. The nature and potential role of non-financial sector players such as mobile phone networks, retail stores, trade unions etc. as potential partners in distribution.

RSP framework (regulatory scheme): Drawing on the findings of previous country diagnostics, especially the key regulatory drivers of microinsurance development. This component will consider the full body of policy and regulation, as well as supervisory capacity, that impact on the development of the insurance market. This will include consideration of:

⁴ The questionnaire to be used by the facilitator as the basis for discussion in each focus group session.

- a. Policy in support of market development and/or financial inclusion. What is the policy priority given to financial sector development and insurance in particular? More specifically, does the government have a formal policy on financial inclusion and what does this entail? Have particular regulations been passed to promote financial inclusion, not only in the insurance sphere, but also wider?
- b. Specific insurance regulation that exists covering legislation, regulations and other subordinate regulation (circulars, etc.) that set out the general regulatory framework for insurance. In particular we shall consider aspects of prudential, market conduct and product regulation and the regulatory risks and challenges faced in the country (including the capacity of the regulator/supervisor for insurance).
- c. Consumer protection and recourse, including consumer education.
- d. The regulation of the broader financial sector, which may include the relevant bank regulation, regulation of MFIs and NGOs providing financial services, general market conduct regulation and regulation specific to credit providers (as this may be of relevance to credit life insurance and bancassurance).
- e. Non-financial regulation as far as it impacts on the development of the insurance sector. This may include areas such as tax legislation and AML/CFT requirements.
- f. The institutional environment in which the financial sector and insurance market operates: e.g. the regulatory and supervisory framework for cooperatives in general, and for mutual insurers, institutional requirements on insurers and intermediaries, governance, etc.

The specific regulatory questions referred to in 3(b) above will receive particular attention as part of this analytical component.

5.2 Review of general regulatory and supervisory context for insurance

To optimise the value of the diagnostic for the development of microinsurance within a country, the diagnostic will also consider the general regulatory and supervisory regime of the country, using the IAIS Insurance Core Principles (ICPs) identified in the IAIS Microinsurance Issues Paper as particularly relevant to the development of a microinsurance market in a country, as a guideline for the assessment. The product of this assessment will be twofold: a confidential report to the national insurance supervisor, as well as input to the RSP analysis upon which the conclusions and recommended microinsurance strategy will be based.

5.3 Recommended microinsurance strategy

The market analysis and RSP review will culminate in a set of findings and recommendations. The findings need to be comprehensive and substantive enough to justify a set of recommendations for national policy and regulatory changes (if required) and also to provide input into a process of cross-country synthesis that will in turn feed into the IAIS processes of standard setting, guidance and training.

5.4 In country implementation

To optimise in-country implementation, completed country diagnostics should provide the following platforms for engagement with country stakeholders⁵:

- The process of undertaking the country diagnostic must be as participatory as possible, thus building credibility with country counterparts and preparing the ground for change (the process is as important as the report);
- A set of recommendations for policy and regulatory change and support to the insurance supervisor; or other policy makers in the financial sector (such as the Ministry of Finance or Central Bank)
- The general review of the regulatory and supervisory context should provide a basis for engagement between the IAIS and the country supervisor; and
- Sufficient analysis of the actual and potential market for microinsurance (including, where relevant, diagnostics of current pilots or products offered) so as to be useful to market players. (This is not a core focus of the country diagnostics, but experience has shown that decision-makers are unlikely to take an assessment seriously unless it contains factual information that illustrates market dynamics, demand and opportunities.)

The specific process to be followed is likely to differ from country to country. However, the following generic activities are likely to form part of in-country implementation:

- a. *Dissemination events and meetings*: both one on one and in groups, presenting the findings to interested parties. A kick-off workshop at the beginning for all stakeholders, and a final presentation following the completion of the country diagnostic are the minimum group encounters for each country. The presentations should include comparative examples from other countries as well as appropriate material from the body of learning generated by the Initiative to date.

⁵ Country stakeholders include public and private actors as well as donors who have an interest in the areas of microinsurance and financial sector development more generally.

- b. *Trigger and support policy processes:* Regulatory change should be embedded in a policy process designed to generate information and build consensus around the way forward across the various players engaged in the insurance sector. Policy-makers, regulators or supervisors may choose to create microinsurance working groups, drawing in stakeholders and expertise, or publish draft policy papers. The Initiative will support these processes with expertise. The approach must however be to defer as much as possible to domestic processes and capacity, only supporting these where necessary and upon request.
- c. *Policy implementation support:* This can take various forms, varying from support to drafting regulations, training of policymakers and supervisors, and advice on financial education (a key component in growing the microinsurance market) and general communication.

6. Management and implementation resources

Management and coordination: The A2ii Secretariat will coordinate all the country diagnostics undertaken under its auspices. Where multiple country diagnostics are to be undertaken in one region and most probably funded by a single funder, the Initiative will appoint regional managers who will be responsible for the direct oversight of most of its activities within the countries and region concerned.

Research skills: The Initiative will utilise national and regional consultants as well as staff members of national insurance supervisors and regional organizations (including funders) to execute and participate in country diagnostics. The objective is to train (primarily by doing) a number of topic experts able to support country diagnostics, national reforms, and national and regional training and awareness building initiatives on an ongoing basis beyond the duration of individual country diagnostics.

At the same time the Initiative requires uniformity of approach and minimum levels of quality control to ensure sufficient quality information to enable a credible cross-country synthesis to be made. To ensure this a Technical Team, consisting of experienced practitioners in the field, will be established. The Technical Team will provide the following specific services:

- Standardise and continually refine the methodology to be used in country diagnostics;
- Undertake at least one of the country diagnostics in each region (3 regions are currently under discussion: Africa, Asia and Latin America);
- Provide training, technical guidance, back stopping and quality control for all country processes (note: not only during diagnostics);

- Play a leading role in the synthesis of cross-country findings and be responsible for the production of synthesis reports, including regional synthesis reports where required.

7. Activities and work plan

It is anticipated that each country study will require the following specific activities to be undertaken in more or less the sequence set out below:

- Negotiate and finalise funding agreement:* The A2ii Secretariat⁶ will negotiate a funding agreement or MOU with the relevant funder(s). Where the funder intends to fund more than one country diagnostic, the linkages between the diagnostics and sequence of implementation need to be agreed. The extent that a funder wants to be involved in project implementation, for example by providing the regional project manager or designating staff members to participate in country diagnostics to develop regional expertise, also needs to be agreed up front.
- Secure national buy-in:* Preferably while the funding agreement is being finalised, the support of the national insurance regulator and supervisor for the undertaking of the country diagnostic must be obtained. This must include specific agreement on the scope of the project, based on this scoping note. If at all possible, this agreement with the national regulator should include a clear understanding of the extent to which the regulator/supervisor will be involved in the execution of the country diagnostic, either as a key provider of information, or by delegating one or more of its staff members to participate in the activities of the diagnostic. Where national co-funding is required by a funder, this also needs to be agreed.
- Appoint a regional project manager:* Where multiple country diagnostics will be undertaken in a region and the necessary resources are made available, a regional project manager may be put in place to coordinate the various country diagnostics and regional processes. In principle agreement has already been reached to implement regional projects in Africa, Asia and Latin America. Where they are located will be discussed with the funders concerned as well as relevant regional organisations. Where regional managers are not put in place, these coordinating functions will be performed by the A2ii Secretariat.

⁶ Until the A2II Secretariat is formally constituted, the steering committee put together by the Sponsors will fulfill this role.

- d. *Appoint service providers:* A team will be put together by the Initiative to undertake the country diagnostic for each country. Such teams are likely to include members of the Technical Team (at least in the initial round of country diagnostics), national or regional consultants, a person or persons familiar with IAIS assessments (to undertake the general review of the insurance regulatory and supervisory context based on the IAIS Microinsurance Issues Paper) and staff members from national supervisors or regional institutions. A core objective of the Initiative is to grow topic experts in the area of microinsurance and teams will be composed with a constant eye to transferring expertise and creating a team of topic experts in the various regions.
- e. *Orientation and training of country teams and briefing of national stakeholders:* Before the country diagnostics kick off, the teams responsible for undertaking the diagnostics will be familiarised with the methodology and experience to date in undertaking these diagnostics. As far as possible, these training events will take place on a regional basis since it is intended to utilise team members in more than one country. At the same time, the Initiative – directly and through its engagement with country supervisors via the IAIS – will ensure that the national insurance regulators and supervisors are briefed on the process to be followed and that their suggestions on process and focus are incorporated in the program.
- f. *Undertaking country diagnostics:* The diagnostic itself will be implemented using the uniform methodology prepared by the Initiative. Regional project managers, where they have been put in place, will play a key role in providing logistical support to country teams. The country diagnostics are likely to proceed as follows:
- A background review of all existing materials, scan of the body of relevant regulation and identification of all the possible sources of quantitative data;
 - Appointment and briefing of research institution to undertake focus group research;
 - Preparation for a country visit – arranging the program and holding exploratory meetings (by telephone or in person);
 - Country visit to gather information, visit pilot projects, meet all the interested parties, hold kick-off workshop;
 - Analysis of existing surveys and other data sources able to supply quantitative information;
 - Synthesis of findings, which may require follow-up discussions;

- Presentation and verification of preliminary findings with national stakeholders, including the national regulator and supervisor as well as market players;
 - Formulation of final findings, recommendations and proposed microinsurance strategy;
 - Preparation of the general report, including the proposed microinsurance strategy;
 - Preparation of the confidential report containing the findings of the general review of the insurance context.
- g. *Dissemination of country diagnostics:* In respect of each country, an appropriate dissemination strategy will be followed, designed to ensure maximum impact both at the policy level and the general development of the market. This will include at least one workshop presentation to key interested parties from the country concerned.
- h. *In-country implementation:* The Initiative would prefer in-country implementation to be driven from a regional or country level. During the country diagnostics, the regional project manager and country team will engage with national institutions to explore the likely way forward. Similarly, regional project managers will engage with regional and bilateral funders to decide on the funding of in-country implementation activities. In some cases, the funding and management of the implementation phase will already be covered in the funding agreement referred to in (a) above.