access to insurance initiative
FOMIN
Fondo Multilateral de Inversiones
Miembro del Grupo BID
BID
Banco Interamericano de Desarrollo

Colombia

Toward an inclusive universal insurance sector

September 15, 2014

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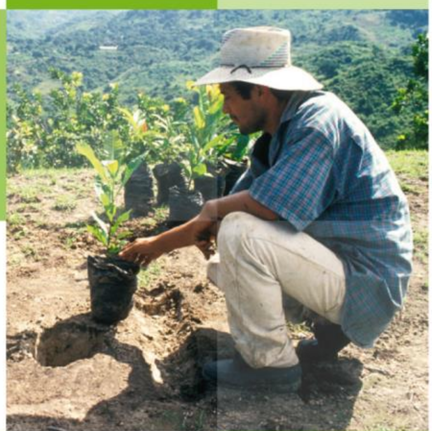

Superintendencia Financiera de Colombia
BANCA DE LAS OPORTUNIDADES

Executive summary

Any analysis of Colombia's microinsurance market development will depend on the concept of microinsurance it adopts. In this diagnosis, microinsurance is defined differently from low mass insurance. The interest in underscoring this difference between mass and low cost microinsurance stems from the fact that in Colombia a significant portion of products classified as microinsurance are, for the purpose of this diagnosis, actually "low cost mass insurance". This diagnosis underscores the importance of ensuring microinsurance is defined and designed taking into account its target audience, the low resource population, such as proposed by the IAIS. From this perspective, microinsurance is a sub-strategy included in a larger scope strategy aimed at encouraging access to insurance by "all" the people who have no access to insurance. This diagnosis determined low cost mass insurance has played an important role in Colombia to promote access to insurance for all. However, it would be logical to assume accessible and affordable products would indirectly benefit poor resource people. Yet, they are not typically designed taking into account the needs and characteristics of the poor resource population. Consequently, an additional ingredient must be added to microinsurance which must not only be accessible and affordable, but must also fit their needs and deprivations. The need to design specific products for these populations is warranted by two considerations: (i) the poor resource population needs products that are better adapted to their needs to manage real risks; the underlying reason is that microinsurance must not only encourage improving financial inclusion but also aim at breaking the vicious circle of poverty and vulnerability; and (ii) poor resource people require products designed based on the fundamental principles of simplicity and speed for all the contracts, document and processes required to use such products, including the disbursement of claim payments. However, in Colombia many low cost mass insurance products use the same complex processes, terms and contract documents as conventional insurance. Even low cost mass insurance in Colombia in most cases does not adhere to the simplicity requirement of existing regulations. From that viewpoint, although low cost coverage has expanded in Colombia that is not necessarily true for insurance that specifically address the microinsurance target audience.

Colombia, following the leadership of the insurance industry and without a specific regulatory framework, has made significant progress in the agenda to improve access to insurance by all the people, thanks to the supply of low cost mass insurance. Many insurance entities, as part of their business strategy to expand their customer base, have promoted access to insurance among a large portion of the population, including levels 1, 2 and 3 (the microinsurance target population). Coverage of levels 1, 2 and 3 has been an indirect consequence of that strategy but does not always respond to a general strategy to design products that address those groups' needs, excepting very specific cases. From this standpoint, some insurance companies offer affordable insurance products through easy access channels (low cost mass insurance) classified in the microinsurance category. We recognize the important role played by the insurance companies in advancing the agenda of access insurance for the entire Colombian population, which we highlight as a major characteristic of the Colombian case. However, further progress in this regard does not necessarily mean progress in the agenda of what this diagnosis understands as microinsurance.

…. No does this development necessarily reflect the growth of a responsible microinsurance market in Colombia. FASECOLDA's figures reveal 6.09 million risks in Colombia are insured by a microinsurance policy, or a 16.1% penetration rate. Nevertheless, as this diagnosis was being prepared, we verified that figure includes not only microinsurance as defined in this diagnosis but also low cost mass insurance. For purposes of this diagnosis, developing a responsible microinsurance market implies not only offering low cost insurance channels that are accessible to poor people but also insurance products that were designed taking into account the needs, characteristics, living standards and deprivations of 1, 2 and 3 population levels. From such viewpoint, it is impossible to clearly determine what is the evolutionary stage of the microinsurance market since a large portion of the insurance products categorized by industry as microinsurance are, in fact, low cost mass insurance products.

An important portion of products presently offered as microinsurance for layers 1, 2 and 3 are low cost products that were not designed taking into account their particular needs. Some of the microinsurance products that are presently accessible and affordable to levels 1, 2 and 3 were not designed to meet their needs and do not take into account their characteristics and deprivations. This happens because: (i) no demand-side surveys are conducted; (ii) there is scant product diversification, as most are life and personal accident insurance products, which although necessary as shown by the demand study, are not the only products needed; (iii) low renewal rates point to the lack of fit in these products among other reasons; such low persistence is evidenced even in state-subsidized insurance; (iv) low claims rates point to excessive administrative and/or commercialization costs, and poor knowledge of such costs; (v) high distribution costs -commissions charged and marketing in mass channels- are passed on to consumers, creating both financial and operational difficulties for insurance companies and erecting barriers to expand insurance services to lower-income households; (vi) channels with potential to reach layers 1, 2 and 3 are underutilized; (vii) premium collection is hampered; (viii) contract documents and some procedures are not always simple or designed taking into account the deprivations of the target population; and (ix) most products are group or collective insurance where the aggregator operates as a policy-taker, thus hampering consumers because the aggregator does not always inform the insurance-holder on the products' conditions issued through individual certificates, or because generally speaking these policies are too complicated.

There are some positive elements in the supply of microinsurance identified in this diagnosis: the target population demands life insurance, a widely offered type. A significant portion of microinsurance products on offer are voluntary; and various alternatives channels are used to distribute these products. Life products are particularly interesting for levels 1, 2 and 3, and they are widely offered. However, although these products meet real needs for levels 1, 2 and 3, their coverage and the way they are offered are not always ideal. Additionally, many insurance products classified as microinsurance by industry are voluntary and not compulsory. Likewise, the Colombian industry has made significant efforts to use innovative distribution channels.

Through its Microinsurance Committee (CM is the Spanish acronym) FASECOLDA has sought to create awareness about the importance of designing microinsurance products that will effectively address the needs of layers 1, 2 and 3. The insurance industry has agreed to join efforts in advancing the access to insurance agenda in Colombia through its trade association; however, individual members do not always agree with their association's standpoint. Although there are several opinions about the concept of microinsurance itself held by insurance companies, which in turn impairs the consistency of the information they supply to the CM, FASECOLDA has designed a definition of microinsurance that underscores the importance of ensuring microinsurance products target poor people. Although industry has adopted tools for collating data through the CM, there is no consistency in the way such data is collected and statistics are gathered; detailed information is insufficient and moreover, not all companies have joined this initiative. Despite such problems, these efforts and good practices demonstrate the potential of the Colombian insurance industry for self-regulation.

The Colombian government has been involved in recent years in efforts to foster microinsurance development and has expanded the supply of products that effectively target layers 1, 2 and 3. This has been accomplished not only through the analysis and enforcement of major public policies that tackle issues of financial inclusion, financial education, risk management, natural disasters, and SME promotion, among others, but also the Colombian government has opened channels for public-private partnerships so that beneficiaries of the latter's social programs, typically inlayers 1 and 2 will have access to insurance. These programs are a site for learning and can provide the foundations for further encouraging industry adaptation and building greater trust and knowledge. However, dissemination and use of information are still insufficient.

On the demand side, significant weaknesses remain. This happens because of (i) insufficient financial education among potential consumers of microinsurance products; (ii) confusion between private insurance and social security and little distinction between insurance and microinsurance; (iii) the fact insurance is not yet widely used by poor people to manage unforeseen risks or unexpected expenses; (iv) lack of trust in banks that contaminates the insurance sector; (v) a perception that insurance is too expensive for the target population; (vi) beneficiaries 'lack of knowledge of mandatory insurances; (vii) lack of information about insurance products; and (viii) lack of advisors to explain the conditions of the products proposed and their benefits.

This entire process has happened without a specific regulatory framework to encourage or promote access to insurance. Nevertheless, this should not be construed as an absence of obstacles to such initiatives or that it is not necessary to encourage participants in the value chain to catalyze the development of a responsible microinsurance market by the regulator. The regulatory framework that applies to microinsurance in Colombia does not erect "unsurmountable" barriers for market development. To foster a responsible microinsurance market and drive its development through innovative initiatives that focus on the needs of the target population, needs becoming aware of the peculiar characteristics and living conditions of poor people, and removing a number of barriers must be removed; this has been done partially but further initiatives in this direction would pave the way for even greater development of the Colombian microinsurance market. These barriers (i) prevent appropriate access to distribution channels and join the market and (ii) delay processes relating to underwriting of and using insurance products. Likewise, it is necessary to analyze in detail the degree of fit of (i) the tools used by layers 1, 2 and 3 so they can make informed decisions and use insurance products; (ii) the specific mechanisms for consumer protection such as abusive clauses, SAC, DFC and other complaints management and conflict resolution mechanisms; (iii) the option for funerary service companies to provide funerary services similar to insurance, although they are not licensed, regulated and supervised; and (iv) the present condition in which burial insurance companies operate, which require consumers to pay the funeral out of their own pockets to then request a reimbursement from the insurance company.

In view of the above, the Colombian microinsurance market may be regarded as a growing diversifying hybrid market. Although Colombia has not yet reached product diversification or have

product designs that suit consumer's needs, the process is underway. Progress has been made in using innovative channels and some voluntary products are already offered.

Recommendations. To help the further growth of responsible Colombian microinsurance marketing, all members of the value chain should be actively involved in designing a road map. This requires a debate and analysis platform involving all stakeholders, and not just the insurance industry, where the following recommendations may be examined and implemented. These recommendations are made taking into consideration the present development stage of the microinsurance market, its needs and the various opportunities that still are open. (See Annex C). These recommendations are presented below by line of intervention together with the types of interventions that may be necessary to put them into practice:

Line of intervention	Recommendations	Applicable interventions
Increasing the efficiency of the microinsurance market and removing regulatory barriers	• Removing regulatory barriers to access commercialization channels to mass insurance and microinsurance products • Remove barriers to simplicity and agility. • Ensure compiling of detailed microinsurance data.	Proportional regulation and adequate oversight
Fostering supply and distribution of value products for both consumers and insurers	Industry should: • Gain greater knowledge of the target population's needs, characteristics and deprivations through appropriate market surveys. • Design innovative microinsurance products that address the tangible needs of the Colombian microinsurance target audience. • Build on PPT pilots and BdO and Bancoldex to encourage socialization of their outcomes. • Continuously follow up the industry to ensure the product provides real value to consumers and is effectively profitable and sustainable from a financial viewpoint. • Expand the use of transactional platforms to amplify access, tradability and simultaneously reduce costs.	Expand demand and use of microinsurance products in Colombia
Increase demand and use of microinsurance products nationwide	Industry should: • Explore the use of channels showing the greatest potential once regulatory barriers are removed. • Explore the scope of web-based sales and other technologies for microinsurance Government: • Formally recognize the role of insurance across all public policies and ensure a coordinated review of insurance issues in all such cases. • Keep opening channels for using microinsurance. • Encourage local governments to open channels for using microinsurance. Industry, government and SFC: • Advance improvements in financial education	Good provider practices Adopting or giving greater emphasis to public policies
Encouraging technical microinsurance capacity building at SFC to assure appropriate regulation and oversight	SFC: • Should provide further training on ways to enhance proportional oversight and regulation and thus promote the development of a responsible microinsurance market. • Build capacities to assess and follow up performance of the microinsurance market on the basis of technical and social indicators. • Encourage dialog among potential oversight subjects.	Proportional regulation and appropriate oversight

Effectively protect microinsurance consumers	Industry should: • Review the possibility of adopting a microinsurance code of conduct. SFC should: • Review together with SES alternatives to require funerary service providers to enforce certain technical insurance principles. • Create and closely monitor microinsurance indicators and grievances statistics. Providers, consumers, SFC and government should: • Encourage the use of legal advice offices to provide assistance and counseling to microinsurance consumers. • Promote the role of consumer protection organizations to address the needs of the resource-poor segments of the population through specific chapters.	Self-regulation of the insurance industry Proportional regulation and appropriate oversight Good consumer practices

Acknowledgments

The consulting team expresses its gratitude to the Superintendencia Financiera de Colombia (SFC), the Ministry of Finance (MinHacienda), Banca de las Oportunidades (BdO), Bancóldex, and the Federación de Aseguradores Colombianos (FASECOLDA) for their crucial interest in and support to preparing this diagnosis.

The consulting team also thanks Martina Wiedmaier-Pfister and Rodolfo Wehrhahn, policy and regulation consultants and members of the “Expert Cadre” of the Access to Insurance Initiative (A2ii); Hennie Bester, expert consultant for the Centre for Financial Regulation and Inclusion (CENFRI), and Patricia Inga, project manager at A2ii/BID (FOMIN) for their technical support while this diagnosis was prepared. In addition, we thank Mateo Cabello for leading the first stage of this diagnosis and Felipe Carrizosa for sharing his vision as local consultant.

Finally, we are grateful to each and every one of the private and public organizations as well as the individuals listed in Annex B who shared their opinions during our visit to Bogota and Medellin in October 2013, and also to the participants at the workshop held in Bogota in August 5, 2014.

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Tables, Figures and Boxes

Abbreviations

A2ii	Access to Insurance Initiative
ADB	Asian Development Bank
BID/IDB	Banco Interamericano de Desarrollo/Inter American Development Bank
BANCÓLDEX	Banco del Comercio Exterior
BdO	Banca de las Oportunidades
BMZ	German Economic Cooperation and Development
CB	Corresponsales Bancarios / Bank Correspondents
CBJ	Circular Básica Jurídica/ Basic Juridical Letter
CENFRI	Centro para la Regulación e Inclusión Financiera /Center or Finanlcial Regulation and Inclusion
CEPAL /ECLAC	Comisión Económica para América Latina y el Caribe / Economic Commission for Latin America and the Caribbean
CGAP	Consultive Group to Assist the Poor
CNC	Centro Nacional de Consultoría /National Consultory Center
DANE	Departamento Administrativo Nacional de Estadística /National Administrative Statistics Department
DPS	Departamento para la Prosperidad Social /Social Prosperity Department
ELCA	Encuesta Longitudinal de Colombia / Longitudinal Survey. Colombia
ENIF	Estrategia Nacional de Inclusión Financiera /National Financial Inclusion Strategy
EOSF	Estatuto Orgánico del Sistema Financiero / Financial System Organic Statute
FARC	Fuerzas Armadas Revolucionarias de Colombia
FASECOLDA	Federación de Aseguradores Colombianos /Federation of Colombian Insurers
FASP	Programa de Evaluación del Sistema Financiero /Financial System Program
FIAT	Financial Inclusion Assessment Tool
FOMIN	Fondo Multilateral de Inversiones /Multilateral Investment Fund
GC / GoC	Gobierno de Colombia / Government of Colombia
FG	Focus Groups
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)
IAIS	International Association of Insurance Supervisors
MFIs	Microfinance Institutions
IPM /MPI	Índice Pobreza Multidimensional /Multidimensional Poverty Index
MIN	Red de Microseguros /Microinsurance Network
MinHacienda	Ministerio de Hacienda y Crédito Público /Ministry of Finance
MTPD	Mesa Transversal de Pobreza y Desigualdad /Poverty and Inequality Round Table
MYPIME /SMMEs	Micro, pequeña y mediana empresa / Small, médium and micro enterprises
OIT /ILO	Organización Internacional del Trabajo /International Labor Organization
PAD	Entidades especializadas en Pagos, Ahorros y Depósitos /Payments, Savings and Deposits Entitites
PCF	Protección al Consumidor Financiero / Financial Consumer Protection
PPP	Public Private Partnership
SME	Small and Medium Enterprises
RIF	Reporte de Inclusión Financiera / Financial Inclusion Report

RUS	Registro Único de Seguros / Single Insurance Registry
SARLAFT	Sistema de administración de riesgos lavado de activos y financiación del terrorismo / Money Laundering and Terrorism Financing Risk Administration System
SENA	Servicio Nacional de Aprendizaje / National Apprenticeship System
SES	Superintendencia de Economía Solidaria /Solidary Economy Superintendecy
SFC	Superintendencia Financiera Colombia / Financial Superintendency
SGSSS	Sistema General de Seguridad Social en Salud / Health Social Security General System
SISBEN	Sistema de Identificación de Potenciales Beneficiarios de Programas Sociales / National Social Programs' Beneficiaries Identity Registry
SMMLV	Salario Mínimo Mensual Legal Vigente / Legal Minimum Wage
SOAT	Seguro Obligatorio de Accidentes de Tránsito

USD X COP

1 USD = 2.032.52 COP (05/06/2014)

SMMLV

1SMLMV= 589.500 COP in 2013 = 290 USD

1 Introduction

1.1 The Access to Insurance Initiative (A2ii)

The Access to Insurance Initiative (A2ii) or the Initiative is a global alliance created by various international development agencies and organizations[1]. Its objective is to facilitate access to insurance products for populations currently deprived of such service. For this purpose, A2ii works hand in hand with local stakeholders, from government, insurance oversight agencies and private and state owned insurance companies. Against this backdrop, A2ii acts as "the implementing arm" of the International Association of Insurance Supervisors (IAIS). Such relationship with IAIS ensures A2ii will access superior knowledge and know how regarding insurance issues in addition to maintaining close relationships with supervising and regulatory agencies as well as the insurance industry in each market.

1.2 The A2II program for Latin America and the Caribbean

A2ii together with the Inter-American Development Bank (IDB) and the Multilateral Investment Fund (FOMIN) is currently undertaking in Colombia, Peru and Jamaica, a project for "Implementing regulatory and oversight standards for Latin American microinsurance markets". The general purpose of this project is to expand the availability and sustainability of insurance products whose final design and characteristics (in terms of their costs, coverage, insured risks, etc.) meet the needs of lower income people. To accomplish this objective, the project supports regulatory and oversight agencies in these three countries and thus pave the way for designing and adopting regulatory interventions that will promote access to insurance. Interventions in each of these three selected countries take place in three stages: (Stage 1) a country diagnosis based on dialog and public-private consensus; (Stage 2) development and implementation of regulatory roadmaps, and (Stage 3) learning and knowledge dissemination. In Colombia, the project is in its first stage. Its objectives are: (i) identify the present status of the microinsurance sector in that country as well as its main characteristics; (ii) identify factors that may contribute to advance this industry; (iii) identify opportunities for and barriers to developing the microinsurance market. The activities designed for these stages 1, 2 and 3 will vary and depend on the needs identified in Colombia through the country diagnosis and dialog with industry and government.

1.3 Colombia: a country diagnosis

1.3.1 Objectives and scope

This diagnosis has as its objectives: (i) to present the landscape of Colombia's microinsurance sector, taking into account the findings made by the consulting team; (ii) to identify present and potential barriers to

[1]Noteworthy among members of A2ii are the German Federal Ministry for Economic Cooperation and Development (BMZ), the Consultative Group to Assist the Poor (CGAP), the International Labor Organization (ILO), FinMark Trust and the United Nations Capital Development Fund (UNCDF).A2ii is supported by various partners in its local and regional projects, including the Asian Development Bank, the FIRST Initiative, GiZ/Making Finance Work for Africa, the Inter-American Development Bank (IDB) and the Ministry of Foreign Affairs of the Kingdom of the Netherlands. The A2ii Secretariat is under the responsibility of the German Agency for International Development (GIZ) on behalf of BMZ. A2ii activities are built on two pillars: creating information and knowledge required by national supervisors to perform their tasks and fostering effective use of such information by the supporting supervisors' capacity building and dissemination of created knowledge.

developing microinsurance; (iii) to identify factors and opportunities that may contribute to developing Colombian microinsurance industry and (iv) providing recommendations to accomplish such objectives.

In preparing a country diagnosis for Colombia, the consultants were supported by SFC and BdO. SFC is the project's official counterpart, as well as the main receiver of the project's products. The consulting team was comprised of Andrea Camargo, Clémence Tatin-Jaleran and Leticia Furst. Mateo Cabello was also a member of the team in the initial stage, together with Felipe Carrizosa, a local consultant. Some members of the consulting team participated in a field trip to Bogota and Medellin in October 2013, where they met with various government officials (regulators, supervisors, policy enforcers and government insurance staff, mainly) who are stakeholders in this industry. They also met with representatives from insurance companies, distribution channels, reinsurers, and insurance brokers, and microfinance institutions (MFIs), among others. A number of focus groups meetings were organized, as well as a visit to the Paloquemao market to gain a better vision of the factors shaping microinsurance demand by low-income Colombians. The diagnosis took stock of all data available as of August 1, 2014. The country diagnosis used a methodology developed by A2ii for this kind of surveys that has been already used in 20 countries. This methodology is built upon four fundamental pillars, namely: (i) a country context; (ii) demand; (iii) supply and (iv) a public oversight and regulatory policy framework; in keeping with A2ii methodology, chapter 2 in this diagnosis provides a context against for microinsurance in Colombia. Chapter 3 examines the Colombian insurance and microinsurance supply markets while chapter 4 explores effective and potential demand for these products. Chapter 5 presents the main components of public policies, regulation and oversight with a positive or negative impact on this industry. A summary of the main findings is shown in Chapter 6, while Chapter 7 provides a number of recommendations that will lead to greater access to insurance by the target population.

1.3.2 Conceptual framework

1.3.2.1 What are microinsurance products?

IAIS defines a microinsurance product as:

> *" (…) an insurance that is available to low income people and is provided by a range of organizations but which is managed following generally accepted insurance practices (including basic insurance principles). This means the risk covered by a microinsurance policy is managed following insurance principles and is funded by premiums. Consequently, microinsurance itself falls within the responsibility of the relevant insurance regulator / supervisor or any other body with jurisdiction in compliance with national law of the respective jurisdiction."* (IAIS - CGAP 2007)

Specifically in Colombia it is worthwhile noticing that in recent years the local microinsurance market has grown without a specific regulation. Colombia does not have a regulatory definition of microinsurance, although FASECOLDA has adopted a definition of microinsurance as part of its overall strategy to promote access to insurance for all Colombians.

FASECOLDA's definition of microinsurance has been used as a parameter for the entire Colombian insurance industry to help collate information about microinsurance products, and to encourage capacity building in microinsurance. At present, in keeping with FASECOLDA's definition, microinsurance products provide protection to low income people and their assets against specific risks and additionally are characterized by simultaneously meeting the following requirements:

1) Their conditions and procedures were designed bearing in mind the target population.

2) They are commercialized through channels most suitable for low income people.
3) Bimonthly premiums are equal to or less than 1 / 12 of the current Legal Monthly Minimum Wage (SMMLV is the Spanish acronym), i.e. in 2013 premiums were close to COP 24.600 monthly or approximately $12.
4) The insured amount is equal to or lower than 135 SMMLV, i.e. almost COP 79.6 million in 2013 or approximately $39.160.

According to FASECOLDA's definition, for the product to be classified as microinsurance by the insurance company, it must target low income people, and it must meet certain quantitative characteristics (i.e. the amount of the premium and the insured value) and qualitative conditions (conditions and procedures designed bearing in mind the target population and the commercialization channel). Having analyzed the microinsurance definition used in other countries, FASECOLDA's definition and the criteria set forth by A2ii to define microinsurance (IAIS 2014), this survey decided to adopt IAIS's definition which focuses on the "low income people". Although we regard FASECOLDA's definition as interesting, in this diagnosis microinsurance products are not differentiated from conventional insurance only through purely quantitative criteria, such as the premium amount and the insured value, but also in terms of the target population that turns an insurance product into a microinsurance. Such definition presupposes microinsurance products are characteristically designed to meet the needs of the target population and meet their conditions and needs.

1.3.2.2 Who is the target audience of microinsurance products in Colombia?

Defining microinsurance as an insurance product targeting poor people requires we define such population in Colombia and thereby quantify the target population of microinsurance in that country.[2] It is worthwhile mentioning poverty and lack of access to insurance are not determined only by low income but also by other dimensions of poverty that are just as relevant in identifying the target population. This will allow us to include as the microinsurance target population those segments that are not necessarily below the national poverty line.

From that standpoint, this diagnosis adopts as a reference parameter the recent class distinction established by the World Bank's "Economic Mobility and the Rise of the Latin American Middle Class" study by F.H. Ferreira, et al. from 2013. This World Bank study identifies four social classes in Latin America: high, intermediate, vulnerable and poor. The tool to separate these classes was the concept of "economic security", understood as low probability of relapsing below the poverty line. The study establishes the maximum level of economic insecurity (the likelihood of falling below the poverty line) over a period of five years for a middle class household should be 10%. To delimit such likelihood based on daily household income, it was decided households with daily income between USD 10 and USD 50 generally showed that level (10%) of economic insecurity. However, not all groups of the population earning less than USD 10 can be classified as poor and, against that backdrop, we noticed the existence of a vulnerable class that shows a risk higher than 10% of falling below the poverty line but is not regarded as poor since their income exceeds USD 4. In view of the above, the World Bank's study concluded 37.5% of the Latin American population must be classified as vulnerable; 30% as middle class, 30.5% as poor and only 2% as high.

A regional demarcation criterion may lead to the conclusion that generally the microinsurance target population is made up by people belonging to the vulnerable and poor classes.

[2] This diagnosis quantifies the microinsurance population to underscore the fact the microinsurance market's captive demand predominates. However, providers, the regulator, the supervisor or government can resort to other demarcation mechanisms, and consequently, quantify differently the target population in Colombia.

The relative difficulty or ease with which this target population may be quantified in each particular country depends on the relevant criteria to identify the vulnerable and poor classes. Some countries only enforce quantitative criteria to identify the poor while others use additional tools that can be used in identifying the vulnerable classes. Colombia uses several tools that may be helpful in demarcating not just the poor population but also the vulnerable groups among its people, including identifying the poor population, social layers and the SISBEN index.

- *Segmentation of the target population based on the national poverty context.* Statistics used in the report on monetary poverty for 2013 show that between July 2012 and June 2013, approximately 32% of Colombia lived below the poverty line. However, this segmentation tool does not take into account the group of people that may not fall below the national poverty line but which may be regarded as vulnerable.

- *Social layers.* Colombian society is distributed by socio-economic strata based on the type of homes where people live. This mechanism to target social expenditure by levels was acceptable to the various interviewees we met during our field visit to Colombia. These levels are as follows: layer 1 (low-low comprising 22.3% of the population); layer2 (Low 41.2%), layer3 (intermediate-low, 27.1%), layer4 (intermediate 6.4%), layer5 (intermediate-high, 1.9%) and layer6 (high, 1.2%). Classification in one stratum or another will determine the amount of subsidies each group will receive from public services. Consequently, layers1 and 2 are subsidy beneficiaries while layers5 and 6 are users with greater economic resources and must therefore pay a premium for using public services. Layer 3, although classified as intermediate (intermediate to low) benefit from a small subsidy while layer5 does not benefit from subsidies nor does it pay a premium over standard rates (CONPES 2005).

- *Population segmentation based on the SISBEN index.* SISBEN is an information system designed by the national government to identify potential beneficiaries of social programs. This system uses the SISBEN III index that evaluates the beneficiaries' standard of living.

This study will use the social layer criteria to determine the microinsurance target population in Colombia. Quantitative and qualitative information for those strata is widely available. From that standpoint, the microinsurance target population in Colombia falls in layers 1, 2 and 3 and includes micro and small business owners, small and intermediate land plot farmers, formal and informal workers and others. Nevertheless, it is worthwhile mentioning Colombia's small and micro companies are clearly excluded from access to appropriate financial services, in particular mechanisms that could allow them to manage the risks threatening their activities or assets and workers, who mostly belong to layers 1, 2 and 3. In view of the above, we will regard SMEs also as belonging the microinsurance target population.[3]

However, layer 1 members are generally too poor to buy an insurance policy under normal market conditions. Their access to microinsurance products may however be possible through subsidies or subsidized government programs such as public private partnerships (PPPs). From this viewpoint, layer 1 includes the "future target population" of the microinsurance market in Colombia and which will require additional mechanisms to "graduate" and access such products. Nevertheless, layer1 people may have access to certain microinsurance products thanks to the government's social programs support. Likewise, once we take into account the dramatic class mobility throughout the region, it may even be more appropriate to regard layer1 as the future

[3]For the sake of brevity, throughout this document "target population" will mean the population in layers1, 2 and 3.

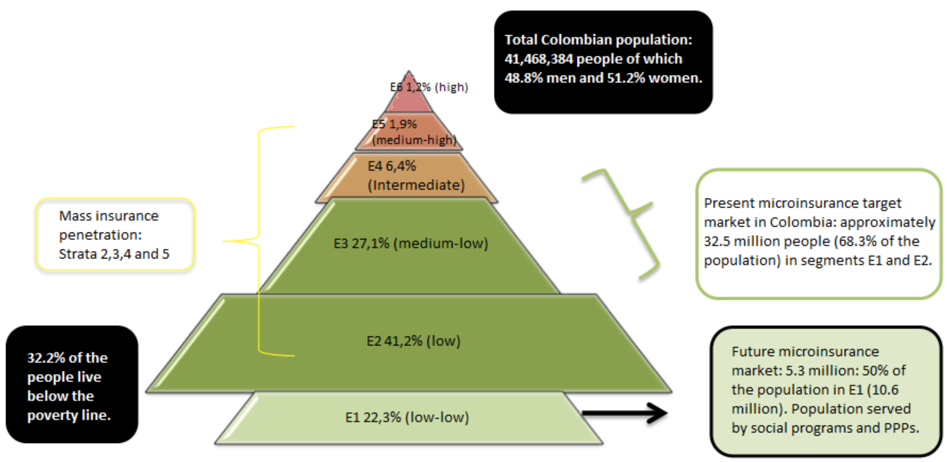
microinsurance market (F. H. Ferreira, et al. 2013), while the present target population is comprised by layers 2 and 3.

To quantify the microinsurance target population, we will use the household survey prepared by DANE which determines the percent of the population by layer. DANE data reveals 1.2% of the (rural and urban) population of Colombia falls in layer 6; 1.9% in layer 5; 6.4% in layer 4;27.1% in layer 3; and 41.2% and 22.3% in layer 2 and 1, respectively. Since the total population of Colombia is presently 41,468,384 people, the **present** microinsurance potential market in Colombia totals **32.5 million people** or 68.3% of the national population which falls in layers 2 and 3.

On the other hand, the **future** target market for microinsurance would comprise **5.3 million people**. Although 10.6 million Colombians fall in layer 1 (22.3% of the total population) there will always be a percentage of those people who will not be able to buy a policy. Consequently, we have included only 50% of layer 1 as the future target market for microinsurance in Colombia. As a result close to **37.8 million people** would comprise the microinsurance target population of Colombia (both present and future). (See Figure 1).

Figure 1 The Colombian microinsurance target market

Source: Prepared by the authors based on the DANE 2013 Household Survey



1.3.2.3 "Responsible" microinsurance

A diagnosis of the Colombian microinsurance market and the ability to provide recommendations that would suit that market requires adopting an evaluation criterion. For purposes of this study, such criterion is the "responsible microinsurance" concept.

Responsible microinsurance are those insurance products that are not only accessible generally through a mass channel and affordable because of their cheap premiums, but are also actually used by those who buy them or to whom they are offered.[4]

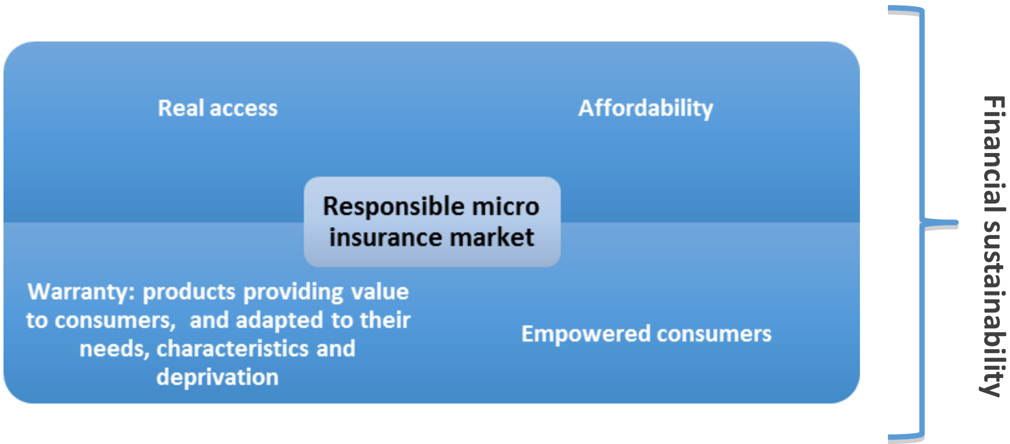
From this standpoint, use of the insurance product is an essential factor in assessing the microinsurance market in Colombia and providing recommendations for its responsible development. Using microinsurance products presupposes these products create real value for the consumer, can be effectively used because the involved processes are known, accessible and affordable, and therefore consumers are sufficiently empowered[5] to enjoy the benefits from such products. (See Figure 2). As a consequence, microinsurance products (i) must respond to the risk profile and protection needs of the target population; (ii) documents must be drafted in easy to understand language; (iii) no conditions are allowed that would impair their simplicity, clarity and easy contracting characteristics and (iv) they must include the least possible exclusions required by the coverage provided by the insurance.

Only when those products meet such characteristics, will it possible to (i) provide an efficient strategy for risk management by poor resource people which, if utilized, will contribute to break the vicious circle of poverty and vulnerability; (ii) ensure financial sustainability, since trust in and a positive perception of insurance will result in larger purchases of such products; and (iii) encourage access to insurance as an essential component of financial inclusion.

[4] As will be seen in the Section on Context, this approach that distinguishes "access" from "use" has also been adopted by SFC and BdO in their recent Financial Inclusion Report 2013 (SFC and BdO 2014).

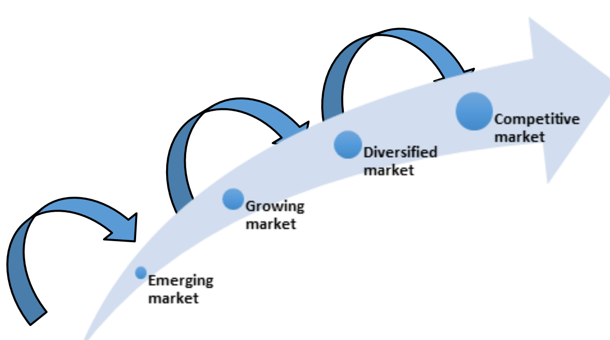
[5] Empowerment is defined by the "Diccionario de Acción Humanitaria y Cooperación al Desarrollo" as a "process through which people strengthen their capacities, confidence, vision and protagonist role as a social group to drive positive changes in their lives."

Figure 2 The responsible microinsurance market
Source: Prepared by the authors



The importance of using responsible microinsurance as an evaluation criterion and to ground our recommendations is coherent with one of this diagnostic's objectives which is to provide recommendations that will encourage microinsurance products' growth in Colombia. Generally, four stages have been identified in developing the microinsurance market: (i) an emerging market; (ii) growth; (iii) diversification and (iv) competitiveness. From this standpoint, this diagnosis will identify the present stage in Colombia, existing obstacles preventing market growth and what may be recommended to encourage a responsible transition to the next stage. (See Figure 3).

Figure 3 Evolution of a responsible microinsurance market
Source: Prepared by the author



2 Context

2.1 Geographic, environmental and economic context

Colombia is especially vulnerable to climate change because of the location of its towns in coastal flood prone areas and on unstable soils in high altitude mountains, and because of the recurrence and magnitude of climate related disasters. (UNDP 2010)

Colombia is extremely vulnerable to natural disasters, a condition that is further worsened by climate change. Colombia ranks 10th among the 33 countries facing the highest economic risk because of their exposure to various natural disasters, including earthquakes, volcanic eruptions, hurricanes, floods and landslides (GFRDD 2010). Colombia's vulnerability to climate change became obvious in the floods and landslides caused by the "La Niña" oscillation (2010-2011 winter). This winter weather snap resulted in almost 3 million victims recorded by the Consolidated Victims Registry (Registro Único de Damnificados, RUD), or about 7% of the population.[6]Damage from the disasters reached 2% of Gross Domestic Product (GDP), thus impairing the country's availability to grow in subsequent years (ECLAC/IDB, 2012). Of all the losses caused by "La Niña" oscillation, only 7% were insured.

Most people live in urban areas. Out of 47.4 million people, 76% live in urban reas (World Bank 2014), mainly as a consequence of rural migration to urban areas caused by violence and few economic opportunities in some rural areas around Colombia. It is estimated this concentration will persist in the future. "*Toward 2050, Colombian urban population will exceed 54 million people, 6 times larger than its rural population (8.8 million)*(Parra-Peña , Ordóñez and Acosta 2013)."

Colombia has experienced significant economic growth over the last decade. At present, Colombia is Latin America's third largest economy, after Brazil and Mexico. In the international scene, Colombia ranks among the world's thirty largest economies. The pace of growth accelerated in the last decade (2001-2012) when Colombia grew at 4.25% annually, even above the average growth rate of the 1990s (2.7%) and the 1980s (3.6%). For 2013 the estimated growth rate is 4.5%, although economic data for the last quarter have not yet been released.[7] Such growth rate is the highest among the countries of the Pacific Alliance, which also includes Peru, Mexico and Chile. Between July 2012 and June 2013, per capita income grew 3.8% nationwide (DANE 2013). Inflation, which reached 3.3% in 2013, is at its lowest in several decades.

The construction, agricultural, mining and financial industries are the country's economic engines. Construction has been the most powerful economic engine in recent years, followed by agriculture. Agricultural activities accounted for 6.5% of GDP and create almost 18.3% of jobs nationwide. Other factors that have propelled the Colombian economy in recent years include an investment rate[8] that toward year end 2012 reached 28.4%, the highest in the country's history.[9]

[6] The World Bank estimates at year end 2012, Colombia had 47.4 million inhabitants (World Bank 2014).
[7] Information provided by FASECOLDA shows the insurance industry grew 8% during the same period; i.e. almost twice as fast as the overall economy. See more information in section 4 below.
[8] Computed as percent of GDP reinvested by the country.
[9] JP Morgan, in its "Emerging Markets Bond Index (*EMBI*)" debt rating classified Colombia as the second best country for investment in South America, after Peru. "Investing in Colombia is safer than in Mexico, Brazil and Chile", La República, October 4, 2012.Colombia ranks 41 among 185 countries in regards of political, economic and structural risk, as rated by Euromoney Country Risk 2012 (Euromoney 2012).

2.2 Political context

The intensity of the armed conflict in Colombia has diminished in recent years. In the 1960s, the country suffered the consequences of armed conflict. Although in recent years violence has abated considerably, its effects are still strong. One of them is the high number of internally displaced persons (between 4.9 and 5.5 million toward the end of 2012), making Colombia the world's country with the largest number of displaced persons (United Nations High Commissioner for Refugees, UNHCR). The "victims" law was passed in 2011 to acknowledge the damage caused by the internal armed conflict, particularly through economic reparation and restitution of land. At present, the Colombian government and the Revolutionary Armed Forces of Colombia (Fuerzas Armadas Revolucionaras de Colombia, FARC) discuss the terms of an end to the conflict.

2.3 Social context

Colombia has made significant progress in reducing poverty and inequality. According to data from Mesa Transversal de la Pobreza y Desigualdad (MTPD) (Cross-sector Poverty and Inequality Round Table; MTPD is the Spanish acronym)[10] from July 2012 to June 2013 32.2%of Colombians lived below the poverty line [11] (DANE 2013) while in 2010, 15.8% of the people lived with 2 USD per day (World Bank 2014). The percentage of Colombians living below the poverty line fell from 40.3% to 32.2% in the same period. ECLACconfirmedinequality in Colombia has also fallen, since its Gini Coefficient dropped 2.1 points over the same period.[12] These results have made Colombia fall from the third position among the most unequal countries in Latin America in 2010 to its present seventh position, making it comparable to countries like Haiti and Angola as regards equality (Moller 2012). The lower inequality in Colombia is accounted for, among other reasons, by the faster growth of poor households' income that expanded faster than their richer counterparts, as shown in Table 1. It is worthwhile noticing that in 2014, among 132 economies, Colombia ranked 52 in the Social Progress indicator[13](SFC y BdO, 2014).

Table 1 Formalization and unemployment (% by quintile)

Source: (DANE 2013)

Quintile[14]	Income increase between 2010 and 2012	% reduction unemployment	Formal employment (% growth wage jobs)
Quintile 1 (20% poorest people)	13.2%	15.1%	9.9%

[10] MTPD is a government initiative principally aimed at providing a (cross-cutting) dialog, follow up and decision making platform on national government initiatives to reduce poverty and inequality in Colombia.

[11] Or 16 million people with incomes below 4.42 USD daily (MESEP 2012).

[12] ECLAC figures show the changes in the Gini Coefficient (used to measure income inequality) in Colombia between 2009 and 2012 are similar to Argentina, Brazil, Ecuador and Uruguay. Latin American countries where the Gini Coefficient recorded the most significant drops were Bolivia, Nicaragua and Venezuela (ECLAC 2013).

[13] This indicator measures "*the ability of a society to meet the basic needs of its people and communities so as to improve and preserve a certain standard of living and create conditions for all individuals to develop their full potential*".

[14] Q2 grew 12.6%, Q3 12.2% and Q4, 10.1% over the same period.

Quintile 5 (20% wealthiest people)	2.3%	N/A	3.2%

The above indicators show there is still a long way to go to improve living standards. The IPM measures poverty through five dimensions (education, childhood and youth, jobs, health, housing and public services) which in turn incorporate five indicators (e.g., informal employment, illiteracy, lack of health insurance, etc.). For the year between July 2012 and June 2013, the IPM shows 27.0% of Colombians were still poor.

Although unemployment keeps falling, informal employment persists. The unemployment rate has dropped in recent years. DANE figures show in November 2013it stood at 8.5%. By quintiles, Table 1 shows how this lower unemployment basically benefited lower income people. However, it is also worthwhile underscoring a large percent of the "employed" population of Colombia work in the informal sector. DANE figures show in the October-December 2013 quarter, 49% of working people held an informal job while 10.2% of the working population in the formal economy reported they were "objective underemployed"[15]. This high degree of work informality results in huge fluctuations in incomes leading to a high level of precarious employment and vulnerability.

The highest poverty rates are reported in rural areas and among certain population segments, such as displaced peoples, indigenous communities and Afro-descendants. Poverty among Colombian households varies significantly between urban and rural areas, measured by various wealth indicators. So, 59.3% of city households earned incomes below the poverty line, compared to 82.9% of rural families. Otherwise said, urban and rural poverties are structurally different. For instance, a larger segment of households living in better socio-economic conditions live in urban areas, compared to the countryside, in particular when we look at issues like solid waste collection, sewers and access to the power or gas grids, which reach more than 90% of the people. In rural areas, however, excepting supply of electric energy, which reaches 93% of rural households, other services' coverage does not exceed 20% (Universidad de los Andes 2011). Moreover, certain population groups show higher poverty rates, in particular displaced, Afro-Colombian and indigenous groups.

The Government of Colombia (GOC) is committed to reducing poverty and vulnerability through its social programs. GOC has introduced a number of poverty and extreme poverty eradication policies and programs, which it channels through the Administrative Department for Social Prosperity (Departamento Administrativo para la Prosperidad Social, DPS), the government agency charged with guiding its social inclusion and reconciliation initiatives[16]. DPS includes several social programs under three categories: (i) social income, including the Familias en Acción and Ingreso para la Prosperidad Social programs; (ii) special programs aiming at promoting peace and restoring lands, among other objectives; and (iii) productive inclusion and sustainability programs, including the "Income Generation and Employability Program". As will be seen below, DPS has tried to expand access to insurance among these programs' beneficiaries. Another strategy worth noticing is the "Red Unidos", led by the National Extreme Poverty Agency (Agencia Nacional para la Superación de la Pobreza Extrema, ANSPE) charged with implementing and coordinating the national intervention strategy to improve the living standards of the families within its scope (indigent and displaced households). At present, some 1.5 million families are served by Red Unidos.

[15] An objective underemployed person is defined as the individual who wishes and has taken measures to materialize his/ her aspirations to improve his/her incomes and working conditions.

[16] The following agencies are under DPS: (i) Agencia Nacional para la Superación de la Pobreza Extrema-ANSPE(National extreme poverty agency), (ii) Unidad de Atención y Reparación Integral a las Víctimas, (Victim care and reparation unit) (iii) Unidad Administrativa Especial para la Consolidación Territorial, (Land consolidation special administrative unit) (iv) Instituto Colombiano de Bienestar Familiar-ICBF, (Colombian Family Well-Being Institute)and (v) Centro de Memoria Histórica (Historical Memory Center).

Colombia provides universal health coverage. Between 2010 and 2012 coverage by the Health Security General System (Sistema General de Seguridad Social en Salud, SGSSS) increased by 3.1 points and affiliated 2.3 million more people through a subsidy scheme. SGSS provided health coverage to 43.2 million people as of December 2013; i.e. 91.7% of the country's total population. However, quality, effective access and long waiting lists are pending issues.

Education and illiteracy issues persist in the country, particularly in rural areas. Illiteracy reaches 8.9% of Colombians 15 years and older. This illiteracy rate is much higher in rural than urban areas[17]. Meanwhile, 37.2% of adults completed their basic primary schooling and 31.8% graduated from high school but only 11.9% of Colombians hold university or graduate diplomas.

Women head 29.9% of Colombian households. However, violence against women persists. Women head 29.9% of households. Of those, 10.6% lack any kind of schooling. This percentage increases to 26.1% in rural areas, placing these households among the most vulnerable in the entire country[18]. This situation is confirmed by the findings of the SISMA Report on Women published on July 17, 2014, using figures from the National Legal Medicine and Forensic Science Institute. According to this study, there is a worrying trend toward increased femicide. To 2013, 40% more female homicides were reported in connection with intra-family violence and sexual crime-related circumstances, compared to 2011 (Corporación SISMA Mujer 2014).

The cooperative sector is very important in Colombia. Affiliation to cooperatives in Colombia is among the highest in Latin America; at least 11.7% of all Colombians are affiliated to some type of cooperative. The number of cooperatives' members reaches 5 million although no detailed quantitative data is available. CONFECOOP, the Colombian cooperatives' association, estimates most of its members belong to the third socio-economic layer in urban areas and to layers 2 and 3 in rural areas. Affiliations grow 8-9% annually. The cooperative sector operates a network of over 900 offices nationwide, making these cooperatives a potential channel to reach resource poor clients.

2.4 The financial sector and financial inclusion

2.4.1 Financial system

The Colombian financial system is robust and is among the most important in Latin America. The financial system is comprised of credit organizations[19], financial service companies[20] and other financial institutions, among which insurance companies[21]. In 2011, the value of assets in the supervised financial system reached 90% of GDP, reflecting Colombia's economic growth in the last decade. In 2001, those same assets reached only 60% of GDP. Growth reflects the expansion of Colombia's economy in the last decade. After the financial crisis of the late 1990s, this sector has become increasingly stronger thanks, among other factors, to regulations by the national government and SFC. This has resulted in strong return, risk and solvency indicators. In recent years, Colombia has strengthened its position as a financial services exporter throughout

[17] The percent of adults who know how to read and write reaches 94.5% in the main municipalities; however, this figure drops to 81.5% in lower level municipalities.
[18] The average number of household members in Colombia is 3.9; 66.7% of all households have 4 or less members.
[19] Among them: banks, financial corporations, traditional financing companies, leasing financing companies and financial cooperatives.
[20] Among them: pension and annuity fund management companies, trust companies, bonded general warehouses, investment management companies, foreign currency brokers and special financial services organizations.

[21] In addition, capitalization companies and special official institutions.

the region. The latest financial system assessment program (Programa de Evaluación del Sistema Financiero, FSAP, 2012) carried by the International Monetary Fund (IMF) shows Colombian credit organizations enjoy a strong financial position. This same report shows financial (banking and non-banking) organizations are effectively supervised by SFC.

The Colombian financial industry is dominated by complex financial conglomerates and a wide range of intermediary agents. Due to a significant concentration of assets, the country's 10 most important conglomerates hold 80% of the financial sector's total assets.

2.4.2 Access to financial services by poor people

Colombia has made significant strides in its financial inclusion agenda by promoting access to transactional platforms, credits, savings and insurance. Both government and industry have taken clear measures to promote financial inclusion in Colombia, as is the case of the National Financial Inclusion Strategy (Estrategia Nacional de Inclusión Financiera, ENIF) and the establishment of BdO[22]. However, financial inclusion still faces a number of significant challenges. (See Box 1)[23]. Government has focused its efforts on ensuring access to transactional platforms, and access to and use of credits and savings. As regards insurance, although industry has been the main driver behind the recent expansion, more recently GoC has also committed to those efforts, as is clearly stated in the National Development Plan (Plan Nacional de Desarrollo 2012-2014, PND 2012-2014)[24]. Other current initiatives also seek to promote savings (micro-savings).

In 2013, The Economist Intelligence Unit ranked Colombia in the seventh position among 55 countries where the regulatory and institutional environment, and the country's stability, are conducive to expanded microfinance businesses. Such progress was confirmed by the World Bank in 2012, during the evaluation of the Colombian financial system (Financial Sector Assessment Program, FSAP), which underscored the positive impact of bank correspondents (or branchless banks; CBs is the Spanish acronym), expanding innovative channels, such as mobile telephony and the Internet, progress in specific microcredit regulations and bringing new customers to the financial system through the subsidies' payments to members of the Familias en Acción program's electronic savings accounts.

Box 1 The challenges of financial inclusion in Colombia
Source: (SFC y BdO, 2014)

[22] BdO is a financial inclusion public policy pushed by the national government that is implemented through projects and programs focusing on encouraging access and use of quality financial services to create positive impacts on the well-being of households and business environment. The BdO network is comprised of banks, financial companies and financial cooperatives and savings and credits unions, as well as microcredits NGOs. Together they are charged with expanding coverage and taking financial services to the unserved population.
[23] For more details on the public policies aimed at promoting financial inclusion, see Section 5.
[24] For more details, see Section 5.

The challenges of financial inclusion in Colombia according The Colombian Financial Superintendent

- Translate economic growth into social well-being for the entire population.
- Strike a balance between innovation and supply of financial products and services in markets that will not put at risk the financial system while simultaneously meeting the interests and needs of consumers.
- Understand the true needs of people through a demand survey currently underway together with Banca de las Oportunidades.
- Support innovation to cure potential market failures created by new financial products. On the supply side: i) issue regulations to foster introduction of new technologies and encourage market competition; and ii) ensure markets get more and better information about them. On the demand side: i) protect financial consumers involved in controversies; ii) empower them, including the non-banked population by providing sufficient knowledge for decision making when relating to or joining the system.
- Preserve consumer's trust in the financial system through effective protection mechanisms.
- Promote linkages that make it easier for all stakeholders to jointly participate in designing and implementing the financial inclusion policy adopted by the State.
- Encouraging sustainable inclusion through insurance (microinsurance) working together with the Inter-American Development Bank (IDB), the Access to Insurance Initiative (A2ii) and Banca de las Oportunidades, to better identify regulatory and oversight needs.

The importance of access to insurance increases against the backdrop of financial inclusion initiatives. Although this issue will be analyzed in further detail in Section 5 below, it is worthwhile noticing insurance has received special recognition both in the PND 2010-2014 and the Financial Inclusion Reports for 2012 and 2013(SFC y BdO, 2014)[25]. The FIR for 2012 mentioned the following issues:

> "*there is* great potential for financial inclusion through the insurance industry. For this purpose, it is necessary to promote an insurance culture among Colombians, so this type of product will not be understood as a luxury* (…) *insurance provides added value to consumers because it is a risk coverage tool that contributes to mitigate the perverse effects of economic shocks and improves quality of living, based on the confidence that payments will be forwarded in case of disaster. Coverage, access, loyalty building and the policy holders' peace and calm are the foundation of this tool to promote financial inclusion*".[26] (Underlined by the authors) (SFC 2012, 147).

Organizations providing credit and savings services to poor resource people are mainly commercial banks, financial cooperatives, savings and credit unions and microfinance institutions (MFIs). Not all these players are under SFC's or Superintendencia de Economía Solidaria's (SES)[27]oversight. Such is the case of some MFIs and NGOs.

The main entities providing financial services to the microinsurance target population in Colombia are as follows:

1. MFIs: They are defined as institutions outside SFC or SES's oversight but which, nevertheless, provide microcredits. Generally, they are established as foundations or non-governmental organizations (NGOs), and are only allowed to provide loans but not authorized to accept savings deposits. The main MFIs are Actuares, Crezcamos and Contactar, which altogether provide credit services to about 1 million clients.
2. Credit establishments:
    a. Banks: Some commercial banks, including ProCredit, Bancamía, Banco de Bogotá and Bancolombia provide microloans to the middle and middle-low classes (layers 3 and 4, principally, but also to micro business owners). It is interesting to notice that in recent years some MFIs affiliated to Women's World

[25] Superintendencia Financiera de Colombia, Reporte de Inclusión Financiera, 2012.
[26] RIF 2012, p. 147
[27] Savings and loans unions are supervised by the Superintendencia de Economía Solidaria.

Banking have completed their transition to credit establishments (Banco WWB) and are also now under SFC's oversight.

b. Banco Agrario: Since 1999, Banco Agrario de Colombia S.A., a mixed entity, provides microcredits and other financial services to the rural sector to finance agricultural, fisheries and forestry industry activities. This financing is provided through its 738 offices, making it the country's largest bank office network.

c. Financing companies. Differently from banks they are not authorized to open checking accounts[28]- They include Finamérica, MiPlata, Banco Falabella and Tuya.

3. Cooperatives: These organizations operate across a range of economic and service sectors (financial, savings and loans services for their members, and in the agricultural, transportation, health, education and other industries). They also provide microfinance services to their members. As mentioned in the "context" section above cooperative members mostly fall in the 2 to 4 layers, as reported by the cooperatives, all of which are supervised by the Superintendencia de Economía Solidaria (SES) excepting financial cooperatives that are overseen by SFC.

The number of micro credit clients[29] almost tripled in the most recent 5-year period. Between 2007 and 2012, these clients rose from a little over 600.000 to 1.7 million or 6% of the Colombian population; 68% of this growth originates in banks, followed by MFIs (17.2%) and SES-supervised cooperatives. Cooperatives hold 25% of the total portfolio; they manage smaller loan amounts and serve clients with less resources.

71%of adult Colombians have access to financial products; however, difficulties remain relating to the effective use of financial products. Towards the end of 2013, 71% of the adult Colombian population had access to at least one financial product. At year-end 2009 the corresponding figure was 59.6%. As regards geographic coverage towards the end of 2013, only three municipalities lacked any financial services provided by a banking entity and only one lacked services provided by any type of financial institution (SFC y BdO, 2014). This increase is a consequence of efforts by government and the financial industry to provide access to the financial services (BdO 2013). Nevertheless, there is some road to be travelled before accomplishing truly effective use of these products. For instance, out of 51.2 million savings accounts, almost 51% were dormant. This figure rose by 3.4 million since 2012, and according to RIF 2013, they are "basically linked to the low income client segment" (SFC y BdO, 2014). Consequently, SFC and BdO feel improving the effective use of financial products is a major financial inclusion challenge, and their current efforts are pointed in that direction.

CBs have played an essential role in expanding financial service coverage. Efforts are underway to encourage mobile banking. PCs in Colombia include offices, banking agents (corresponsales bancarios, CB), automated teller machines, and dataphones (POSs). From December 2008 to 2013, the number of PCs rose 172.3%. To December 2013 CBs, presented in greater detail below,[30]had allowed to take financial services to 1,069 out of 1,102 municipalities nationwide, i.e. 97% coverage of the Colombian territory. The number of PCs operated by financial entities (ATMs, teller machines, offices, and POS dataphones) reached 362,670 in 2012, or 35.6% more than a year earlier. (See Table 2). Non-presential channels, principally mobile telephony and the Internet, have gained importance as ways to access financial services. As a consequence, the volume of transactions at offices has dropped 15% from 2008 to 2012 (SFC 2012). "Door-to-door advisors" ("asesores móviles")

[28] Financial companies are financial entities supervised by SFC. Their deposits are covered by the Fondo de Garantías de Instituciones Financieras (Financial Institutions Guarantee Fund) (FOGAFIN) through a deposit insurance scheme. From the legal standpoint, they are financial institutions authorized to takemoney in time deposits they use to give loans for commercialization of durable consumption goods and household services and for leasing operations.

[29]Microcredits are loans under 25 SMMLV, or up to 14.7 million COP (about 7,250 USD in 2013).

[30] See Section 5.

employed by NGOs to offer their products are also worthwhile noticing. By December 2013 NGOs hired 2,128 such advisors who offered their services in 26 departments and 386 municipalities (SFC y BdO, 2014).

Table 2 Points of Contact (PC). Annual growth

Source: (SFC and BdO, 2014)

Type of contact point	Dec-2009	Dec-2010	Dec-2011	Dec-2012	Dec-2013
Offices	3.7%	0.3%	0.8%	9.4%	5.1%
CB	15.1%	72.7%	71.9%	68.8%	51.4%
Automated tellers - ATM	8.1%	9.2%	7.5%	12.8%	11.4%
Dataphones - POS	21.9%	13.7%	6.0%	31.8%	35.9%
TOTAL	19.9%	15.0%	9.4%	33.2%	35.6%

*New PCs (points of contact) and mobile banking are introducing new elements in the Colombian financial landscape. For instance, PCs and mobile banking are two ways the "*Familias en Acción" program pays its 2.1 million beneficiaries, who hold accounts with Banco Agrario. Beneficiaries could not use their account because bank offices were typically too far. To overcome this issue, in a second stage of the program pre-paid cards were delivered to families who could thus withdraw cash from private banks' electronic tellers.[31]

Likewise, it is worthwhile underscoring the use of "Cédula Cafetera Inteligente," (smart coffee industry's smart cards) with which coffee farmers register as growers nationwide, receive payment for their sales and perform other transactions. At present, the Cédula Cafetera Inteligente is used in a mobile banking pilot program implemented by Telefónica Movistar, The National Coffee Growers Federation (Federación Nacional de Cafeteros) and Banco de Bogotá, with IDB's support. This pilot program includes 300,000 coffee growers nationwide and will allow them to perform transactions with cash deposited in the "Cédula Cafetera Inteligente" by cellular phones and make payments and withdraw cash from commercial establishments. In addition, users can check coffee quotations and account balances.

Access to cellular telephony has sparked interest in advancing the mobile banking agenda. In Colombia, there are 103 cellular phone subscribers for every 100 persons. With such penetration rate, promoting mobile banking is crucial to carry the financial inclusion agenda forward. The GoC has prepared a draft law that introduces certain tools to facilitate mobile banking and encourage financial inclusion[32].The number of mobile banking transactions increased 205% between 2008 and 2011 (from 1.3 million to 3.9 million). A comparison of channels used by Colombia's banking industry shows mobile banking has experienced the largest growth in recent years (425% between 2010 and 2013). A recent BBVA study showed 16 out of 23 banks offer mobile banking services in their broadest sense,[33] either through smartphone applications or SMS in simpler telephones. SMS technology is used by eight banks for checking balances, buying cellular phone air time, paying utility bills, and wiring money. Three banks have created electronic deposits (Depósitos Electrónicos - DE), electronic savings accounts (Cuentas de Ahorro Electrónicas - CAE), and streamlined accounts, already foreseen in the regulations passed to encourage financial inclusion[34] (Fernández de Lis , et al. 2014). By December 2012, three mobile banking products were available, i.e. linked to a cellular telephone number.

[31] However, systems are not robust enough tohandle large numbers of transactions, in particular at the beginning of each month.
[32] See Section 5.
[33] Including web-based bank transactions using portable phones.
[34] See Section 5.

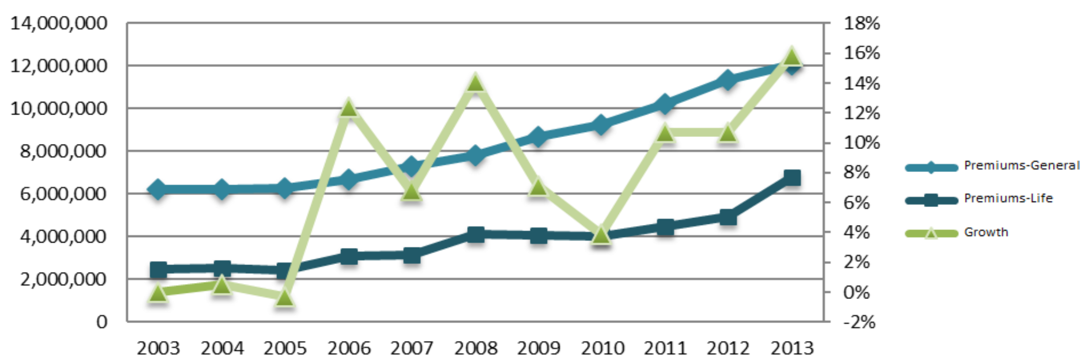
They share the following characteristics: (i) product activation from the cellular phone, which may be a simple phone (non-presential transaction); (ii) paperless process; and (iii) immediate registration.

3 Microinsurance supply

3.1 General characteristics of the insurance industry

Colombia's insurance industry has grown steadily in recent years. In 2009-2013, a combination of regulatory measures together with the country's economic growth, led to a growing insurance market. (See Figure 4).

Figure 4 Evolution of the insurance industry. Colombia 2009-2013
Source: FASECOLDA, 2003-2013, at constant prices and according to Swiss Re's insurance type classification.

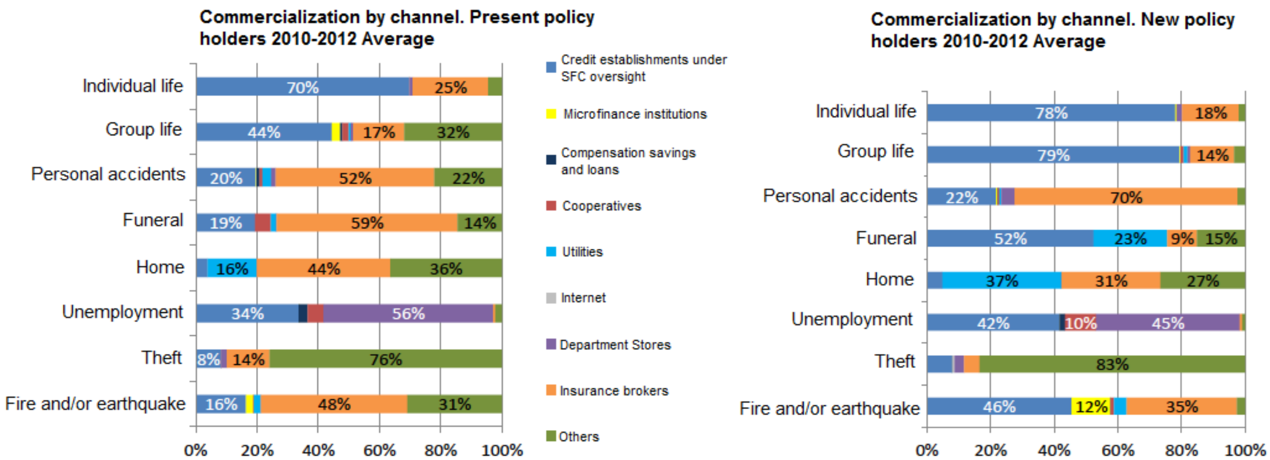


An additional growth factor was the involvement of private industry in providing social (health) security benefits, allowed by 1993's public law No. 100[35]. At present, these products account for about 25% of the entire industry's production.

Using several marketing channels has improved access to and affordability of insurance products in Colombia. Insurance entities started using credit establishments in 1997 to market certain insurance products. In addition, certain insurance products have been marketed through other types of channels in the last decade, including utilities and department stores. These two developments have expanded the supply of accessible and affordable products that now reach the intermediate and low-income segments of the population, who typically had no access to insurance products. Thus, group life and personal accident insurance types have grown at an annual real 10% rate (net of inflation) over the last 10 years. Figure 5 shows the most frequently used commercialization channels by type of insurance in terms of number of policy holders (Figure 5).[36] It is worthwhile noticing that the SFC's report shows the most active channels for policy renewals (by number and value) are those run by credit establishments under SFC oversight, and insurance brokers. The former renew a larger number of policies, while the latter create more value.

[35] This law allows the private sector to participate in pension, mandatory health, and occupational risk businesses.
[36] This survey must be used carefully as it is a pilot program aimed at exploring the general condition of the industry and not specifically microinsurance development.

Figure 5 Commercialization by insurance type and channel. Current and new policy holders.



Source: (SFC 2013)

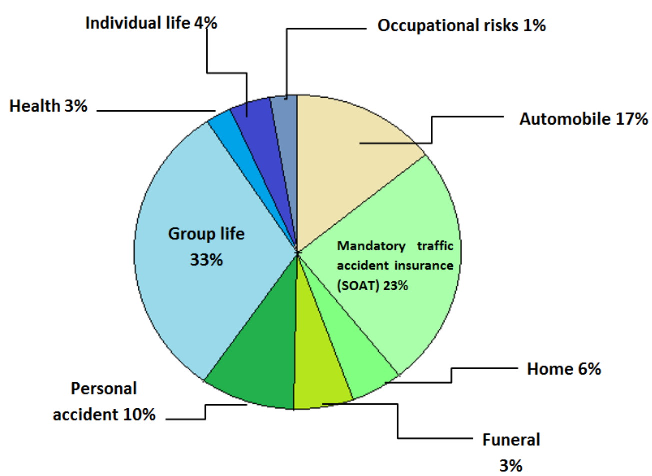
Despite the insurance industry's growth, the insurance penetration and density rates remain low, although within the regional range. With average inflation from 2009 to 2013 at 2%, the industry's average real growth during the period was 12%, significantly higher than the overall economic growth rate, which reached 4 to 4.5% annually. In 2009, the penetration rate[37] was 2.3%, while in 2013 it was 2.7%, with a nationwide insurance density[38]of 116.2 USD in 2009 and 209 USD in 2013 (Swiss Re - Sigma 2014). These figures are low compared to averages in Latin America over the same period where penetration reached 3.2% in 2013, density was 300 USD, and the average annual real growth rate was 9.4% in 2013 (Swiss Re - Sigma 2014).

Figure 6 Outstanding policies by selected insurance types – December 2012[39]

Source: (FASECOLDA 2013)

Total number of outstanding policies

Insurance: 28.04 million

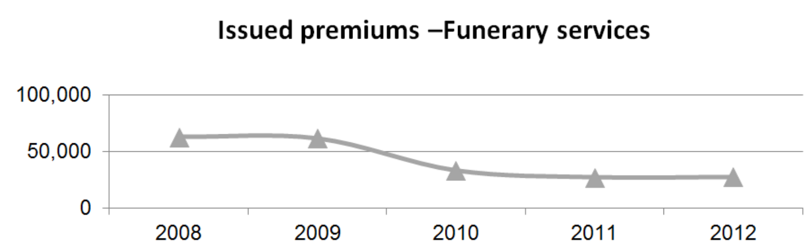


[37]Issued premiums/GDP.
[38]Premiums per person per year.
[39]Occupational risks policies are issued by company. In 2013, this system covered approximately 8.3 million workers.

The fastest growing insurance types are group life, vehicles, and personal accidents. The most significant drop was experienced by funerary insurance. By year-end 2012, general insurance types accounted for 69% of premiums issued in Colombia[40], with group life and vehicle insurance as the most important. (See Figure 6). The strong growth in the group life and personal accident insurance segments is worthwhile noticing. As we will see below in more detail, most microinsurance products classified as such in this report fall within these groups. In addition, funerary or burial insurance has decreased enormously since the 2009 financial reform (Public Law No. 1328), which prohibited insurance companies from providing compensation in kind, thus transferring most of this market to funerary service companies, which do not need to meet the same solvency or reserve standards required from insurance companies. At present, insurance entities can only provide this type of policies if compensation is paid through reimbursements to the policy's beneficiary. (See Figure 7).

Figure 7 Burial insurance issued premiums

Source: FASECOLDA; in million



Returns in the insurance industry were satisfactory in 2009-2013 despite negative technical results for main insurance types. However, these negative technical results result from diverse other incomes and returns from investments. During the most recent five-year period, the insurance industry earned an average 10% return on equity (earnings/book value).

Colombia's insurance industry is growing significantly, and has developed several business models. A large number of players operate in the Colombian market, including 19 life insurance companies and 24 general insurance outfits. These companies' profiles are also very diverse, including for-profit outfits, cooperatives (two entities), and two listed companies (Positiva and Previsora). Ownership is mostly domestic (20), but multinationals are also very active in Colombia (14 and counting). Several business models exist side by side in this industry. Table 3 shows the market share of the industry's leaders to December 2012.

Table 3 Colombian insurance industry leaders by percent of issued premiums

Source: (FASECOLDA 2013)

Life	General
Positiva (23%)	Suramericana (15%)
Suramericana (22%)	Colpatria (9%)
Mapfre (13%)	Liberty (8%)
Alfa (10%)	Estado (8%)

[40] If health and personal accident insurances are included as general insurances.

Foreign insurance companies can provide insurance products within the national territory to cover certain risks; Colombian residents can buy any type of policy abroad, with rare exceptions. The Ministry of Finance, MinHacienda, is allowed to hire insurance products abroad to cover natural disaster-related risks. These characteristics enhance competition and access to products; however, it is important to examine the purchase of insurance abroad by Colombian citizens and the impact on consumer protection under such circumstances since the SFC does not have any kind of oversight powers over such foreign entities, and credential, market behavior and consumer protection rules do not apply to these types of insurance.

Prudential rules have been recently strengthened in Colombia to require financial entities a larger equity base. Several regulatory changes in recent years, including solvency and technical reserve rules and adoption of International Financial Reporting Standards (IFRS), require insurance companies to hold larger equity.

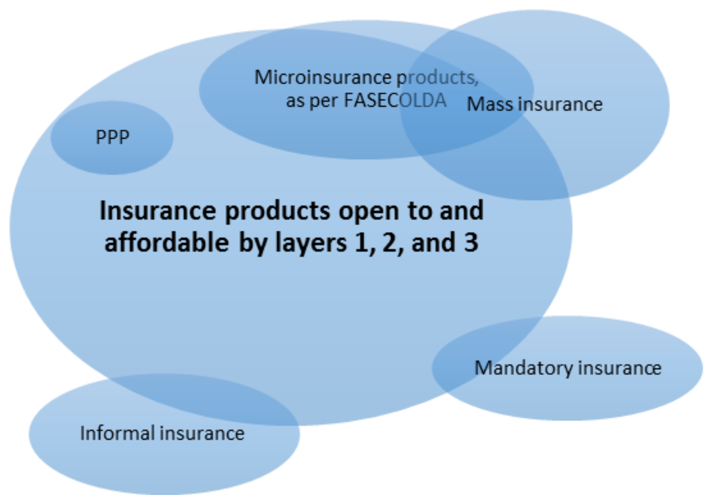
The Colombian insurance industry benefits from FASECOLDA's credibility. Only FASECOLDA represents the insurance industry. It however does not only represent insurance companies but also undertakes strategic coordination initiatives with SFC and MinHacienda, concerning regulatory, technical, and legal issues. Likewise, FASECOLDA has its own staff and work teams with members of industry that create data, and carry out studies and analyses, encompassing not only traditional insurance but also the microinsurance segment through its Microinsurance Committee (Comité de Microseguros - CM).

3.2 Colombia's microinsurance market

Microinsurance types. A diagnosis of the microinsurance products in Colombia requires a nationwide mapping of insurance products presently available to and affordable by layers 1, 2, and 3.

First to be taken into account are microinsurance products, as defined by FASECOLDA. Nevertheless, our diagnosis identified other insurance products that are also open to and affordable by poor people. They are classified as "mass insurance" but are do not appear in FASECOLDA's microinsurance report. Likewise, compulsory insurance, such as mandatory traffic accident insurance (Seguro Obligatorio de Accidentes de Tránsito, SOAT), as well as insurance products provided through government sponsored public private partnerships (PPPs),are also classified as microinsurance. Finally, funerary service companies in Colombia provide certain programs with characteristics similar to insurance products and, in most cases, they are identified as "insurance" by their target population, as we will see in the section on demand below. From this perspective it is possible to include a group of informal insurance products. (See Figure 8).

Figure 8 The microinsurance universe in Colombia



Source: Prepared by the authors

Mapping insurance that is open and affordable is crucial for two reasons. First, it allows to undertake a comprehensive diagnosis that takes account of all such products. Next, it allows identifying products that can have an impact on the perception of insurance by layers 1, 2, and 3. A good or bad experience in any of such categories will contaminate other insurance types as the target population does not identify insurance products by category and, consequently, their perceptions will apply also to those other groups of insurance.

We present below a review of the present microinsurance market. It is worthwhile underscoring the mandatory and information insurance categories could not be examined in detail, because of lack of detailed data for each of those categories. We will constrain our analysis to microinsurance as defined by FASECOLDA, low-cost mass insurance, and PPP insurance.

3.2.1 Microinsurance as defined by FASECOLDA and low-cost mass insurance

This section provides detailed analysis of the insurance products classified as microinsurance by FASECOLDA and low-cost mass insurance. These two categories will be analyzed together because, as we will see below, some of the microinsurance products defined by FASECOLDA are in fact low-cost mass insurance products.

3.2.1.1 Microinsurance and low-cost mass insurance

The Colombian insurance sector has focused on expanding "access" to insurance products throughout the country based on the "microinsurance" concept. In recent years, strong competition in the Colombian insurance market has pushed insurance entities (including cooperatives, private companies, and two-state owned companies - Positiva and Previsora) to explore opportunities for selling new insurance products through innovative commercialization channels. The Colombian insurance industry has spearheaded the debate on access to insurance in Colombia by expanding the "microinsurance" concept. FASECOLDA's definition of microinsurance has evolved over time. In an initial stage, their definition was principally quantitative, determined by the amount of premiums and the insured amount. However, as the debate on microinsurance evolved in Colombia, FASECOLDA has also included certain qualitative criteria in its definition. At present, emphasis is placed on the products' design, conditions, and procedures, bearing in mind their target population. Their commercialization must also be through appropriate channels to reach low-income people.

FASECOLDA's Microinsurance Committee(CM) plays an important role as a platform for sharing and consolidating information about microinsurance; however, microinsurance market reports lack accuracy. This issue however is being gradually addressed. The CM was created in 2008 and currently includes 24 out of 33 insurance entities operating in Colombia. In its Microinsurance Report, the CM shows the accomplishments of Colombian insurance entities abroad and shares foreign experiences and good practices, thus fostering sharing of lessons among all its members. The CM is a platform that allows sharing valuable industry information, which would otherwise be hard to obtain. CM members provide monthly data that allow following up the Colombian microinsurance market's performance. However, certain gaps persist, which will be examined in detail below: (i) taking into account that each insurance company enforces its own criteria to classify their products as microinsurance, these reports include information about products that are not necessarily microinsurance products. Nevertheless, FASECOLDA has tried to harmonize and enforce qualitative criteria in its definition of microinsurance; (ii) some insurance entities actively participating in the microinsurance supply market —including Cardif Colombia, Suramericana, Allianz, and Solidaria—, have decided not to share their data; (iii) only 17 out of 24 insurance companies that are members of the CM report microinsurance data; some do not offer microinsurance products, while others do, but do not share their data; (iv) lack of qualitative data provided by insurance entities hampers identifying products that are effectively purchased by and for layers 1, 2, and 3.

Each insurance entity enforce sits own criteria to classify certain products within its portfolio as microinsurance. Despite efforts to harmonize and consolidate information reaching CM, particularly by fine-tuning the definition of microinsurance and how to use it,[41] there are still certain differences in the way members understand microinsurance. Thus, (i) while some companies think microinsurance should comprise exclusively those insurance products targeting low-income segments of the population, (ii) others feel microinsurance products are those fostered by government, because of their clear social motivation, (iii) while others still think microinsurance applies to any low-cost product, regardless of their design or their target audience. Under this last assumption, low-cost products sold through channels like supermarkets are regarded and recorded as microinsurance by certain companies, even if they are not specifically designed for low-income people.

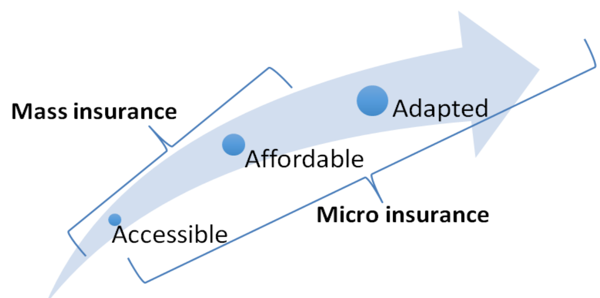
Some insurance entities have tried to broaden their potential insurance buyer base through mass marketing channels, regardless of their potential consumers' social layer. Although this strategy has made certain low-cost mass insurance products open and affordable to layers 1, 2, and 3, impact has been limited.

FASECOLDA's microinsurance market reports include a range of products that do not necessarily classify as microinsurance, but rather as "low-cost mass insurance." Although FASECOLDA's most recent definition mentions microinsurance products must be designed bearing in mind their target population and their processes and conditions must be adapted to such segment (FASECOLDA 2013), a field visit showed those criteria are not enforced by most Colombian insurance entities reporting to the CM about the microinsurance market. As a result, such report comprised products that are not regarded as microinsurance *strictu sensu* but rather as "low-cost mass insurance."

[41]FASECOLDA has recently made efforts to exclude certain products that do not meet the characteristics outlined by its own definition of microinsurance. Certain changes in the way microinsurance data was gathered and published by FASECOLDA were introduced in December 2013.

Low-cost mass insurance products are defined for purposes of this diagnosis as affordable insurance products that meet the characteristics of (i) universality; (ii) simplicity; and (iii) standardization, and are distributed through mass commercialization channels, such as supermarkets, utilities, and others. Thus, low-cost mass insurance are an essential tool in promoting access to insurance for the entire population, given their easy access and affordability. However, such products do not necessarily meet the needs, peculiarities, and deprivations of poor people, so they are not adapted to the target population. (See Figure 9).

Figure 9 Microinsurance and mass insurance
Source: Prepared by the authors



3.2.1.2 FASECOLDA-demarcated microinsurance market

Warning. To scrutinize the degree to which microinsurance market as defined by FASECOLDA has evolved, we examine the microinsurance reports published by that entity. As mentioned earlier, however, these reports show certain deficiencies that have an impact on the findings of this diagnosis. Bearing in mind it was not possible to access detailed information for microinsurance and low-cost mass insurance products, it is not possible to separate both categories and demonstrate their independent evolution. From this standpoint, our analysis of their respective degree of development must be taken with caution. Regarding the data used in this analysis, it should be underscored that in December 2013 certain changes were introduced in the way microinsurance data published by FASECOLDA was gathered. Firstly, data from some insurance companies were no longer included, among them Solidaria, while data for certain products were corrected as they did not fit into FASECOLDA's microinsurance definition. Moreover, because these changes happened when this diagnosis was already underway, we have used and presented here data available from 2008 until December 2013, which take these changes into account and reflect them on previous years.

The percentage of microinsurance premiums policies by volume is above the Latin American and Caribbean average. In 2012, the volume of issued microinsurance premiums reached 4.1% of all premiums issued by the Colombian insurance industry. This percentage is higher than in most Latin American and Caribbean countries, typically around 2% (McCord, Jaleran and Ingram, The Landscape of Microinsurance in Latin America and the Caribbean 2013). Microinsurance premiums have grown 51%, mostly life and general insurance, between 2008 and 2013, as shown in Figures 10, 12, and 13. FASECOLDA's data reveal the penetration of microinsurance (as of December 2013) had reached 16.1%. These figures, nevertheless, seem extremely high for the reasons presented previously, namely, not all products classified as microinsurance are regarded as such in this diagnosis, while their target population is not restricted to layers 1, 2, and 3.

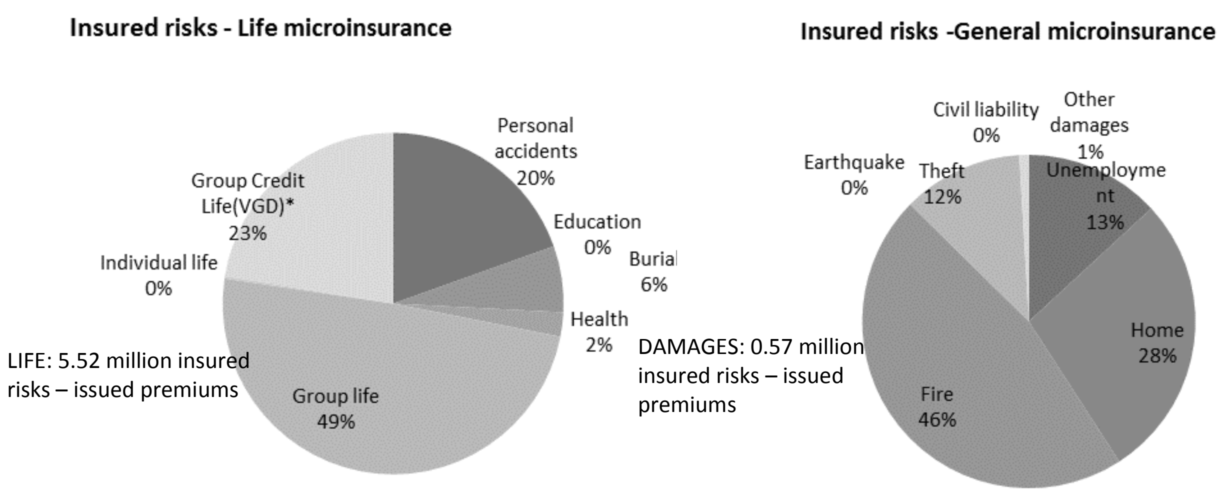
Based on FASECOLDA information, in 2012 there were 7.6 million risks insured by microinsurance policies (or a 20% penetration rate).[42] Based on this information, however, it is not possible to determine whether those insurance products exclusively targeted the microinsurance target population (layers 1, 2, and 3), in view of insufficient detailed information by layer and other constraints already described. Likewise, it is not possible either to hold the people in those layers do not have access to other types of insurance identified above.

Based on FASECOLDA's data to December 2013, after some fine-tuning of the definition of microinsurance and microinsurance products, and after excluding certain insurance entities, there were in Colombia 6.09 million risks covered by a microinsurance policy (or a 16.1% penetration rate). FASECOLDA estimates 18% of the market is not covered in its monthly reports, so the number of actual risks should fluctuate around 7.4 million, pointing to an even higher (19.5%) rate. Nevertheless, our consulting team is not aware of the methods used by FASECOLDA for their estimates.

The microinsurance market is not diversified. Although apparently the Colombian microinsurance market has evolved significantly, its product offering is not very diversified. Most covered risks fall in the personal insurance category. Despite 49% growth in this industry, between 2008 and 2013, the personal accidents and the group life insurance types, including credit life insurance, account for 83% of all insurance products (Figure 10). In 2013, the number of policy holders leveled off, and sales of funerary insurance dropped, reflecting a more competitive and relatively saturated market (Tables 5 and 6).

Figure 10 Life and damage insured risks – Microinsurance to December 2013

Source: (FASECOLDA 2013)



Health microinsurance products are in short supply. This peculiarity can be partially explained because layers 1, 2, and 3 enjoy universal access to health care services through the Health Mandatory Plan (Plan Obligatorio de Salud - POS) and the subsidized mechanism. However, our field visit identified issues about the quality of services as well as their affordability and access because of geographic population mobility and insufficient supply of low-cost complementary plans to serve those population segments, and for the informal and rural people, among others. POS provides coverage for workers in the formal and informal sectors, and to society's

[42] Number of insured risks divided by the target population in the conceptual framework, amounting to 37.8 million persons.

most vulnerable populations through subsidized mechanisms (and also for resource-poor households registered by SISBEN, which are not required any co-payments).

Equidad, Mapfre, Royal Sun Alliance (RSA, and Solidaria are the highest penetration insurers for microinsurance market premium issuances. However, the percent of their microinsurance issued premiums in their entire portfolio fluctuates significantly among these four microinsurance leaders, with 20% for Equidad, 20% at Mapfre, 19% at RSA, and 14% for Solidaria(Table 4).

Table 4 Penetration of microinsurance issued premiums by insurance entity
Source: (FASECOLDA 2013)

(COP, million)	Percent of microinsurance in total portfolio
Solidaria	14%
Mapfre	20%
RSA	19%
Equidad	20%

Based on the definition of microinsurance used in this study, Mapfre, Suramericana, and Liberty have a stronger focus on serving the target population. One reason is these insurance companies provide products that were specifically designed to meet the needs of layers 1, 2, and 3, and which were prepared after market surveys and in an analysis of distribution channels that helped them define the specific characteristics of microinsurance products and processes to help them reach a clearly defined target population.

Table 5 Microinsurance - damage
Source: (FASECOLDA 2013)

Damage insurance	Number of policy holders (December 2013)	Number of policy holders (December 2008)
Unemployment	74,914	9,706
Home	157,994	68
Fire	265,159	2,469
Theft	66,628	548
Others	5,298	0
TOTAL	**569,993**	**12,791**

Table 6 Microinsurance - life
Source: (FASECOLDA 2013)

Life insurance	Number of policy holders (December 2013)	Number of policy holders (December 2008)
Accident	1,079,455	427,633
Burial	346,571	766,939
Health	126,124	169
Group life	2,719,217	2,851,710
Individual life	12,588	0
Group credit life	1,238,020	22,467
TOTAL	**5,521,975**	**4,081,720**

The insurance industry has identified the following seven challenges it must face to further grow the microinsurance market. In our field visit, we asked policy holders which were the main challenges they faced when developing products and services for low-income Colombians. Insurance companies identified the following challenges in order of importance:

1. **Access to the population**: Identifying channels that truly open access to the target population is still a challenge for insurance companies.
2. **Premium collection**: Because poor people use formal financial services only to a limited extent, premium collection becomes extremely difficult. Just as difficult may be building an efficient and flexible mechanism for premium collection. In addition, mobile telephone payments are not yet widespread in Colombia, while using contact points, in particular CBs, is still limited.
3. **Renewal and persistence**: Persistence rates are still very low even when government subsidies are available for coverage. Insurers mentioned extremely variable rates: in some cases, renewal rates may reach 40% or higher in the initial months and then level off; in other cases, average life of insurance is 36 months or longer. Lower renewal rates challenge the programs' viability because expenses incurred to sell policies can only be recovered with reasonable persistence rates.
4. **Intermediary and channel commissions**: Insurance companies said commissions ranging from 25% (lowest) to 70% in extreme cases are too high by international standards and the criteria used worldwide to assess the value for client and sustainability of microinsurance product, which, in turn, allow to enforce good insurance practices. Such circumstances hamper the programs' viability, access to products, and the value of microinsurance products for low-income families.
5. **Middlemen training**: Training intermediaries requires time, devotion, and significant financial expenses for companies.
6. **Product design**: In addition to difficulties created by lack of risk figures, other difficulties emerge when trying to suppress certain clauses and exclusions, in particular because such clauses and exclusions are a requisite included in reinsurance contracts.
7. **Streamlining procedures regarding money laundering regulations (SARLAFT)**[43]: These procedures have been streamlined for instance by using client-information questionnaires for certain insurance products similar to microinsurance. Nevertheless, these forms must be filled when paying for damages. Moreover, the minimum amounts determined by the regulation that suppressed client-information questionnaires for certain products were set at very low levels and perhaps certain microinsurance products would exceed those caps.[44]

3.2.2 Microinsurance products promoted by the Colombian Government through PPPs

The Colombian Government promotes not only adoption policies conducive to microinsurance development but also encourages PPPs to design and implement microinsurance pilot programs targeting layers 1, 2, and 3. As mentioned in the context section above and further detailed in section 5 below, the Colombian Government is committed to defeating poverty and promoting financial inclusion, including access to insurance. These initiatives are reflected by its incorporating insurance in public policies, but also through encouragement of PPPs to provide microinsurance products to layers 1, 2, and 3. In particular, the purpose of creating PPPs for microinsurance is to prepare joint pilot projects with insurance companies interested in penetrating this activity, so that experience gained will improve knowledge among insurance entities about the social and economic characteristics of the service target population, and create know-how among these companies

[43] Sistema de administración de riesgos lavado de activos y financiación del terrorismo (risk management, money laundering and terrorism financing system).
[44] See section on regulation.

regarding design of specific products that can meet the needs of the target population. We describe below the PPs to expand microinsurance activities in Colombia.

1. *Microinsurance promoted by DPS targeting beneficiaries of the Income Generation and Employability Program.* Through this program, already mentioned in the context section above, DPS provided two microinsurance products targeting beneficiaries of the Microbusiness Capitalization and Women in Action programs. These two microinsurance programs provide life, total and permanent disability, and funerary assistance coverage. They are provided through AIG and Generali insurance companies. (See Table 7).

Table 7 DPS, Generali, and AIG PPP indicators
Source: DPS

	Generali (2011-12)	AIG (2013)
Number of policy holders	64,239	85,928
Insured amount by policy	7,000,000 + 3	8.000.000 + 2
Amount of premium	15,000	14,700
Subsidy	-	-
Number of deaths	30	Under 35
Renewals	26,386	12,000
Claims indicator	7%	< 28%
Claims frequency	0,05%	0,04%
Renewal rate	41%	14%

Compared to other population segments, frequency and claims indicators reported by DPS are low, probably reflecting lack of knowledge among beneficiaries of the coverage provided through this program. So, policy holders and/or beneficiaries probably do not claim the benefits provided by their insurance coverage due to lack of knowledge about the mechanisms for filing their claims or about the existence of the policy itself. Low renewal rates may confirm this assumption.

2. *The BdO pilot project carried out together with Positiva Compañía de Seguros S.A. in 2012 – 2013 provided a life insurance policy to 39,201 beneficiaries of Red Unidos (extreme poverty) and More Families in Action (vulnerable individuals with children of school age) programs in 21 municipalities in 15 departments in Colombia.*

The life microinsurance product provided to beneficiaries comprised death insurance coverage up to 3 million COP (1476 USD) and burial support coverage reaching 1 million COP (492 USD). This annual coverage was devoid of any exclusions, covered beneficiaries in groups, and did not establish an age limit; the premium paid per policy- holder reached 10,000 COP (4.92 USD) and BdO paid all premiums during the first year, or 392,010,000 COP (192,869 USD). During that period, the claims index reached 68%, including 67 deaths (one homicide and one suicide; all other were natural deaths) among 39,201 women policy holders, or a frequency around 0.17%. During the insurance period, microinsurance beneficiaries were paid a total 4 million COP (1,968 USD) for policy holder deaths within 6 to 60 days, and mostly between 6 to 30 days.

A follow up of this microinsurance product has provided information about risk exposure among this population segment and the decisions these clients make. (See Table 8).

Table 8 Claiming policy holder age brackets
Source: BdO

Age bracket	Deaths	Percent	% policy holders
Up to 30 years	3	4%	62%
From 31 to 40 years	8	12%	
From 41 to 50 years	23	34%	35%
From 51 to 60 years	17	25%	
Over 60 years	16	24%	3%
TOTAL	67	100%	100%

Policy renewals during 2013 required each female policy holder to pay a premium amounting to 10,000 pesos COP (4.92 USD). Payments were made optionally through the families' account with Banco Agrario de Colombia and through Daviplata. The initial microinsurance policy's characteristics regarding coverage[45] and underwriting[46] were not changed. Positiva added a dismemberment benefit. Meanwhile, BdO jointly paid for a communication (awareness raising and training) strategy and potential expenses resulting from renewals debited from policy holders' accounts. As a result of the renewals campaign, 30% (11,938 women) also raised paying the premium through automatic debiting against their accounts: 9,066 from Banco Agrario and 2,872 from Daviplata. Finally, 4,327 women policy holders renewed their policies after Banco Agrario de Colombia tried twice to debit sufficient funds to cover the premium's value from their savings accounts. The lessons learned from the BdO model are summarized in Box 2 below.

3. *Since 2003, Bancóldex has designed and developed a series of products and services aimed at tackling financial exclusion of microbusiness and SMEs' owners.* Colombia's business development bank (Bancóldex S.A.) has joined several major insurance companies in designing the FUTUREX – Microinsurance Life and Damage program, and other insurance products for SMEs. (See Table 9). These public-private programs seek to provide low-cost insurance that mitigates the microbusiness owners' and their families' social vulnerability, as well as SMEs' risk. They are provided through financial entities in the Bancóldex network, comprised of almost 67 MFIs, serving more than 1.5 million microbusiness owners.

[45]Services include: (i) death coverage for any reasons (insured amount reaching 3,000,000 pesos); (ii) burial assistance (insured amount: 1,000,000 pesos) automatically activated together with the death benefit; and (iii) pre-existing conditions.

[46] The policy characteristics are as follows: (i) minimum insurance age, no age limit, and indefinite duration; (ii) automatic inclusion of all policy holders for the entire group; (iii) one year duration; (iv) no insurability statement required; and (v) no exclusions whatsoever.

Table 9 BANCOLDEX microinsurance products

FUTUREX LIFE MICROINSURANCE	This Sudamericana product provides protection against the following risks: death for any reason, total and permanent disability, serious disease, and additional support for relatives' death or disability, funerary expense support, with an option to include the entire family group. Underwriting this insurance by the MFI for the benefit of its clients is a condition required by Bancóldex to support the corresponding MFI. Bancóldex has attempted to make this product more visible through vaccination campaigns run by MFI, mother day's celebrations, back to school kits distribution and others. To April 2014, insurance distributed through MFIs included in Bancóldex, through the FUTUREX VIDA program comprised 54,023 active policy holders with a total insured amount of 237,196 million COP (USD 123 million). Claims exceeding 1,630 million COP (USD 840,000) have been paid.
FUTUREX DAMAGE MICROINSURANCE	This product is not provided at present by previously Mapfre provide through it protection to business owners' goods against the following risks: (i) basic[47]; (ii) internal damage[48] and (iii) aggravated theft[49]. This was a voluntary product. it was suspended because of a number of issues: (i) during the 2011 cold snap, losses reached 2 billion COP (USD 1,037,012); this amount broke the product's financial balance and required changes that degraded it and prevented it from accomplishing the objectives initially set for it; and; (ii) certain regulatory barriers relating to the product's sale through MFIs were identified. Existing regulations require products distributed to MFIs should be universal, simple and standardizes, but it was not clear this kind of insurance met such characteristics.
SME'S MICROINSURANCE	Once the lack of insurance products catering to SMEs was identified and potential demand of products by this target segment was reviewed, Bancóldex decided to support SMEs insurance. After making a call to all officially operating insurance companies in Colombia and with support of a Temporary Alliance between Aon Risk Services and JLT Corredores de Seguros, Bancóldex started designing an insurance product that will allow to meet the following objectives, given its nature as a development entity: (i) obtaining appropriate insurance for industrial, commercial and service SMEs so they could face the adverse effects of risks involved in their assets, occasional liabilities or natural catastrophic phenomena; (ii) provide the Bank's target market a high value added insurance product; (iii) foster a culture of insurance among Bancóldex clients, thus increasing insurance penetration in the overall economy and (iv) foster use of bank's credit lines by opening the possibility of hiring debt together with an insurance policy. ACE Seguros S.A. as chosen as the operator for the Bank-designed product. Its objective was to provide SMEs a modular insurance product that would cover their assets' risks (building, machinery, electric and electronic portfolio, equipment and business interruption); potential third party liabilities and contract performance depending on the type of company activity. This would be accomplished through partnership with one or several insurance companies.

4. *The Banco Agrario is presently cooperating with two private companies (Equidad and Cardif) to develop microinsurance products for its clients.* The existing product provides coverage for death for any causes within a range of 1.8 million to 6 million COP (including burial support and a 6-month cash installment). A Bank's client and his / her spouse may get this insurance, for premiums within 8,000 COP and 51,000 COP annually. The total number of beneficiaries to October 2013, was approximately 20,000.

5. *The Colombian government has set a priority of creating PPs as a tool for agricultural industry development.* The Ministry of Agriculture and Rural Development[50] provides an agricultural insurance policy in partnership with La Previsora, Suramericana and Mapfre insurance companies. Although not

[47] Fire, lightning, explosions, strong winds, hail, water-related damages, floods, landslides, avalanches, vehicle impacts, airplane crashes, earthquakes, tremors, volcanic eruptions, mutiny, civil turmoil, malevolent acts and terrorism.
[48] Includes internal damages (mechanical, electric or electronic) or damage to equipment caused by short circuits, voltaic arcs and similar phenomena or electric disturbance (lightening).
[49] Covers loss of elements within the insured property as a result of aggravated theft. Additionally, provides coverage for damage to insured goods or the facilities where they are kept as a result of attempted aggravated theft.
[50] http://www.finagro.com.co/productos-y-servicios/seguro-agropecuario

specifically targeting small property owners, this insurance product is strongly subsidized: 60% (70-80% if the farmer holds a credit with Finagro for the insured crop). The farmer must pay 40% of the premium plus VTA and can cover biological and natural risks, including rain and drought, strong winds, floods, frost and hail. The Ministry has set aside an annual budget for this subsidy but has set insurance caps per hectare. Claims adjustments are made through adjustors and not on an index. Several entities, including financial organizations, cooperatives, farm input dealers and industry associations can also provide these insurance policies. A total 60,000 hectares are covered. Nevertheless, the data about the size of insured farms has not been published. The most usual crops covered by this product are sugar and bananas (and also some forestry and rice crops though to a lesser extent). No public data is available on claims paid.

Box 2. The BdO model. Lessons learned

Source: BdO

The BdO model. Lessons learned

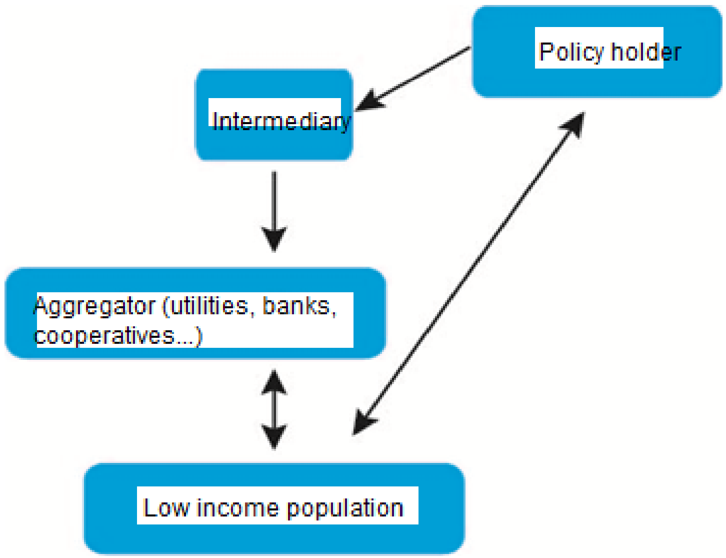
- **Lack of knowledge by the insurance industry about the target population:** BdO planned to launch a 3-year pilot. During the first year, the entire premium was subsidized, followed by a 50% subsidy in the second year and returning clients paying 90 to 100% of the premium in the third year. No insurance company answered the first call for tenders. The main reason they argued was the lack of knowledge of this sector to commit for three years. The Banco Agrario ran into similar difficulties.
- **Violence against women:** out of 50,755 women policy holders, policies were delivered to 39,201 participants. BdO explained policies were not always delivered to insured women because Red Unidos agents found women would be at an extreme risk if potential beneficiaries found they were policy holders.
- **Premium payments:** once the initial insurer and BdO decided to renew the policies they also identified some issues with premium payments and commissions. For renewals, BdO would cover the expenses incurred by debiting the policy holders' accounts. However, an agreement with Banco Agrario allowed to remove those charges.
- **Form signing:** during renewal, Red Unidos agents were authorized to call clients and ask them if they were interested in keeping their policies. To do so, they should visit Positiva offices to sign the corresponding authorization. To smooth out this process, Positiva made available opened pop up offices and points of service at schools in the program's cities.
- **Mortality rate:** mortality rates fluctuated by age bracket but the overall mortality rate is very low and therefore acceptable to insurance companies. This allowed to insure the low income people without incurring losses during the pilot project.
- **Low renewal rates:** research is needed to get a better understanding of the reasons why renewals were so low.

3.2.3 Transactional channels and platforms

This section describes the transactional channels and platforms used so far to distribute microinsurance in Colombia, as well as the way they participate. Since 2002, Colombia's insurance industry has explored various options to provide insurance on a mass basis through several channels.

Figure 11 Triangular relationships through channels

Source: Prepared by the authors



The use of channels to encourage access to microinsurance products is rising, while traditional intermediation channels have lost ground. Information obtained during our interviews with the insurance industry in our last field visit shows insurance intermediaries-brokers, agents and agencies - have expanded much more slowly, in comparative terms, than alternative channels, including banks and financial entities, as well as certain mass channels (supermarkets, utilities and others). It is worthwhile noticing alternative channels give rise to triangular relations so that in some cases professional insurance intermediaries such as insurance brokers and agents also participate in the product distribution chain. (See Figure 11).

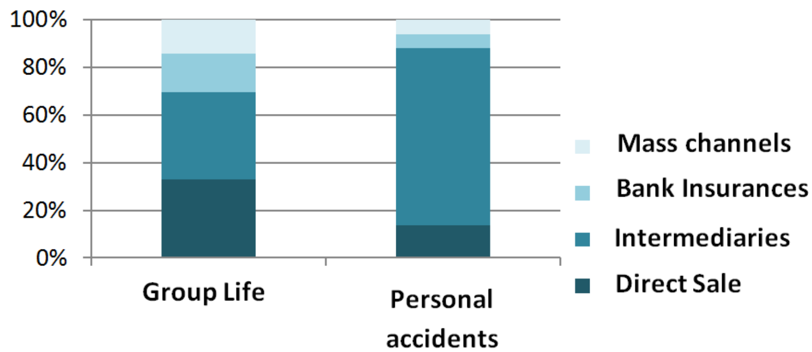
This trend is shown in Figure 13, depicting the findings of the 2012 Distribution Channels Survey carried out by FASECOLDA[51], for the group life and personal accident insurance types in terms of number of policy holders.

Insurance companies promote their products with their own staff but also on the web and by telemarketing. Some of the microinsurance products distributed at supermarkets are complemented by direct sales schemes. For instance, Suramericana "off the shelf" microinsurance products (see Figure 12), sold at Éxito supermarkets are not "activated" until the buyer calls the "insurer" call center to get the information required and accept and sign the contract. (See Figure 11). Although microinsurance web-based promotion is not much developed it is worthwhile noticing there are certain government programs that aim at increasing penetration of these services among layers 1, 2 and 3.

Figure 12 "Off the shelf" products Suramericana insurance company
Source: Mercados Exito

Figure 13 Group life and personal accident insurance– December 2012
Source: Fasecolda – Survey

[51]FASECOLDA carries out regular surveys to identify the best distribution channels for certain insurance products. These surveys typically do not get 100% returns but they are nevertheless relevant to get a view of the industry products' distribution by type of activity.



3.2.3.1 Existing distribution channels

Microinsurance products are mostly distributed through utilities, the "solidarity" sector and bank insurance. The main channels used to distribute microinsurance products, according to FASECOLDA, include: (i) utilities (gas and power); (ii) the solidarity sector; and (iii) bank insurance. (See Table 10).

Table 10 Distribution of microinsurance products by channel

Source: (FASECOLDA 2013)

	Number of policy holders	Percent of policy holders	Percent of issued policies
Utilities	1,961,838	40%	49%
Solidarity sector	1,032,719	21%	14%
Bank insurance	805,186	17%	21%
Others	374,871	8%	4%
MFIs	259,263	5%	8%
Department stores and other correspondents	134,735	3%	2%
One-on-one sales	133,234	3%	0%
Family Compensation Funds	87,103	2%	2%
Remmitances	65,000	1%	1%
TOTAL	**4,853,949**	**100%**	**100%**

Data on Tables 9 and 10 show the average premiums sold through those channels are quite affordable for layers 2 to 4 and the insured amounts are relevant as well. However, based on data gathered the precise population segments they target (layers 1, 2 and 3, presently served through channels including supermarkets / shops and banks) are not well known by the insurers.

Table 11 Average monthly premiums by channel

Source: (FASECOLDA 2013)

	Monthly average premiums (Dec. 2013 in COP)	Insured amount (Dec. 2013 in thousand COP)	Percent policy holders

Micro finance institutions	6011 COP| 2,9 USD	7177 COP| 3,5 USD	5,3%
Bank insurance	4838 COP| 2,3 USD	2978 COP| 1,4 USD	16,6%
Utilities	4674 COP| 2,2 USD	17027 COP| 8,3 USD	40,4%
Family Compensation Funds	4129 COP| 2 USD	7732 COP| 3,8 USD	1,8%
Remittances	2952 COP| 1,4 USD	7728 COP| 3,8 USD	1,3%
Solidarity sector	2532 COP| 1,2 USD	12715 COP| 6,2 USD	21,3%
Shops, departments stores and other correspondence	2490 COP| 1,2 USD	7618 COP| 3,7 USD	2,8%
Others	1842 COP| 0,9 USD	10172 COP| 5 USD	7,7%
One-on-one sales	530 COP| 0,2 USD	11636 COP| 5,7 USD	2,7%
Total	3891 COP| 1,9 USD	7846 COP| 3,8 USD	100,0%

Table 12 Average insured amounts by type of insurance
Source: (FASECOLDA 2013)

Type of insurance	Average insured amount (in thousand COP – Dec. 2013)
Personal accident	27824 COP| 13689 USD
Burial	2748 COP| 1352 USD
Health	20537 COP| 10104 USD
Group life	6522 COP| 3209 USD
Individual life	18607 COP| 9155 USD
Group credit life (VGD)*	2661 COP| 1309 USD
Total personal insurance (excluding Group credit life)	12032 COP| 5920 USD

1. *Microinsurance products distribution through utilities.* Utilities (water, power and natural gas mainly) are used to distribute these insurance products since 2001. A partnership between Codensa (a power distribution utility) and Mapfre in Bogota was the first such experience. Utilities collect premiums more efficiently once their clients have accepted insurance products through the intermediation agents who

Box 3 Utilities: cases of interest
Source: prepared by the authors.

Cases of interest for insurance distribution through utilities

A partnership between Metlife and AIG allows Fenosa natural gas company to provide coverage to 10% of its 2.2 million clients against personal accidents and cancer (70% of policies), or for their SMEs and homes against various types of damage. Most (75%) of these policy holders who are Fenosa clients belong to layers 1 to 3. Billing is sent monthly for the utility's service and the insurance premium, thus making it easier to collect premiums from poor people. In 2011, Mapfre reported having sold 600,000 policies through its partnership with Codensa power company; 81% of its clients fell in layers 1 to 4; burial insurance products accounted for 50%of coverage, although presently, Codensa provides 6 types of coverage in addition to mandatory traffic accident insurance policy, SOAT.

promote them door-to-door. Utilities accept the policy so their clients are insured under a collective policy) and typically underwrite multi annual contracts on pre-paid installments ranging between 10 and 35% of the anticipated premium volume in addition to the relevant commissions. These costs are relatively high to final users (Koven and Martin 2013). At present, utilities insure close to 1.9 million risks, according to FASECOLDA data, and thus are the largest distribution channel. FASECOLDA figures show they cover one

Solidaria insurance company has designed a micro insurance product jointly with Los Olivos funerary services cooperative. Life insurance is included in the Comprehensive Family Plan that provides both life and burial insurance. Protection includes a food bonus, coverage against accidental death or disability, home assistance, and hospital cash.

third of insured risks and hold half of issued premiums. Six companies presently use this channel, in particular for sales of burial and home insurance products. The SFC "Insurance Industry Financial Inclusion" Survey (SFC 2013) shows23% of burial policies and 37% of home policies are sold through this channel. (See Box 3).

2. *Microinsurance product distribution in the "solidarity" sector*. Two insurance cooperatives (Aseguradora Solidaria and Seguros La Equidad) together serve half of the insured persons holding microinsurance policies in Colombia, as shown by FASECOLDA data. Although these two entities do not serve only members in the cooperative sector, their logical target audience is made up by members of the cooperative sector, numbering approximately 5 million members. La Equidad in addition works together with 600 cooperatives and provides six microinsurance products that account for 20% of its portfolio. As mentioned earlier in the context section, Colombia's cooperative sector is quite significant and grows steadily. As a result, this distribution channel is particularly important.

3. *Microinsurance products sold through bank insurance.* FASECOLDA data shows the bank insurance category includes credit organizations, such as ProCredit, WWB, Bancamía, Banco Agrario and Banco Caja Social, as well as other commercial banks (although the latter hold a rather low percentage of microinsurance products). All of them provide micro credits and services to layers 1, 2 and 3. At present, bank insurance is the second most important type of channel in terms of premiums issued, as shown by FASECOLDA figures, and covers almost 1 million insured persons.

   Despite the important role of bank insurance channels, it is worthwhile noticing that, although a large portion of the microinsurance target population in Colombia has access to such credit establishments (through transactional platforms), most do not necessarily use them. This allows drawing the conclusion that among the one million insured persons having taken a policy through credit establishments, most likely belong to the upper income layers.

Banco Agrario offers affordable microinsurance products to its micro credits clients. In 2012, Banco Agrario accounted for 32,000 members who held a life insurance policy with La Equidad. In 2013, 22,000 policy holders had a Cardif product. Since Banco Agrario had 340,850 micro credit clients in 2013, current insurance penetration among its clients reaches 6.4%.

4. ***Microinsurance products provided by MFIs***. As mentioned earlier, in addition to credit establishments, microcredits are offered by a dozen NGOs and foundations which are not subject to SFC oversight. MFIs hold group policies with insurance companies and offer coverage to their loan-holders through their own staff. However, in 2013, the number of persons insured through MFIs dropped considerably to barely 326,738 risks as shown by FASECOLDA data (excluding the credit life insurance offered by MFIs). This is significant because MFIs clients are a perfect fit for the profile of vulnerable or low income people to which microinsurance is theoretically targeted.
5. *"Microinsurance" products sold at large retailers.* Supermarket stores including Éxito, Carulla, Jumbo, Olímpica, and others have entered into partnerships with insurance companies to provide insurance products to their clients. An interesting fact about these chains is their stores adapt to the very different areas they serve. This implies that some of the reported insured risks through these channels may have effectively been taken by individuals and households comprised in layers 1, 2 and 3. However, since FASECOLDA data are not classified by layers, it is impossible to determine which types of population have access to these products. They are mostly offered through group or collective insurance policies. In some cases, the policy is activated by a call made after it is purchased at the checkout in these department stores, but other times, the product is activated simply at the time of payment for the purchase at the till.
6. *Family Compensation Funds are not widely used as distribution channels.* Family Compensation Funds are private organizations that deliver government social program services (health, education, and housing) to the formal sector of the population in the framework of public- private partnerships. This channel is of interest to distribute microinsurance products to workers in layers 1, 2 and 3; for instance, 71% of affiliates served by Comfama, in Antioquia, earn less than two Monthly Minimum Salaries (SMMLV). At present, insurance companies, including, Suramericana, Mapfre, and Metlife have entered agreements with some Family Compensation Funds, including Comfama, CAFAM and Compensar. However, despite this channel's huge potential, its use and penetration are very low, since presently they reach only 10,000 policy holders (excluding Suramericana policy holders), i.e. they only serve 0.1% of the members of the Family Compensation Funds nationwide.

There exist in Colombia 43 Family Compensation Funds covering all national departments. They cover some 9,6 million households and 7 million workers (ASOCAJAS 2013)

Although these alternative channels allow reaching low income people, some are too costly. Alternative channels used presently are quite expensive as revealed by data obtained for this survey. Commissions in the range of 40% to 70% were mentioned, with the consequential lower premiums for insurers and increased cost of coverage for low income potential insureds.

3.2.3.2 Existing transactional platforms

Alternative means for payment and collection are little used. In addition to the traditional options, development of PCs, electronic accounts, mobile telephones, expanded network of CBs or cards, such as PayPass or mobile solutions including RBMóvil, are still in an incipient stage, at least regarding microinsurance services and compared to other countries. With regards to the use of mobile banking, the president of the Colombian Banks' Association (ASOBANCARIA), Maria Mercedes Cuellar, recently mentioned some banks that provide mobile banking services "*no longer provide microinsurance benefits*" through mobile banking (Cuellar 2014).

3.2.4 The value of microinsurance products provided in Colombia. An assessment

Most microinsurance products in the market do not meet the needs and characteristics of the microinsurance target population. A detailed analysis of the microinsurance policies and products presently in the market concludes their coverage and characteristics in most cases are not adapted to the target population. In other words, most products do not comply with the best practice guidelines for microinsurance represented by the 'SUAVE' acronym (*Simple, Understood, Accessible, Valuable, Efficient*) (McCord, SUAVE Checklist for Microinsurance Products: Enhancing the potential for success 2012). Generally, most companies with some exceptions accept they do not perform exhaustive market surveys, nor detailed analyses of their target groups' needs. Generally, there is no detailed understanding of the target population's needs to enhance microinsurance products, as a result, most companies have not taken any measures to streamline and adapt such products to their target population. This deficiency translated into: (i) lack of appropriate coverage, as well as cumbersome paperwork and documentation; and (ii) absent financial and performance indicators for the Colombian microinsurance sector, as explained below.

Figure 14 Microinsurance claims indicators (2013)
Source: FASECOLDA

Ramo	Loss ratio 2013
Personal Accidents	18.5 %
Burial	21.9 %
Group life	31.1 %
Others	14.6 %
Excluding group credit life	23.3 %
Including group credit life	23.8%

Clients attach relatively little value to insurance companies' and FASECOLDA's microinsurance products. A comparison of performance indicators with good practice benchmarks for the microinsurance sector reveals the following:

1. *FASECOLDA-reported claims indicators are very low compared to traditional insurance and good microinsurance practices*: the claims index[52] reported by FASECOLDA for microinsurance has been below 30% since 2011 (See Figure 14). An average 20% claims indicator reveals the insurance product does not provide appropriate protection. It does not reveal either a sound cost-benefit ratio for the purchasing segments of the population. This may be due to the fact premiums are too high for the risk covered; policy holders do not file claims because they are not aware of their rights or the processes involved; or the incurred operative expenses are too high. Industry good practices point to claims indicators above 50% (Wipf and Garand 2012).
2. *The operative expenses indicator shows policy holders find little value in the product, because their premiums do not cover larger potential catastrophes*. Good sector practices point to operative expense indicators[53] typically below 20%. However, microinsurance's operative expense index is higher. However, the operative expenses seems to be too high for microinsurance products because of the commissions charged in the Colombian market by certain distribution channels. Undoubtedly these are required to provide customized products that will meet the needs of layers 1, 2 and 3. In some cases, these commissions reach 70% of the total cost. In turn, this not only reduces the value to the client, because such costs are typically transferred to them, but also places a burden on the insurance company, on the financial and operational sides, and prevents insurance services from reaching low income households. In addition,

[52] The claims index shows the relationship between claims paid and premiums charged for a given policy. This indicator reflects the relationship between the cost of claims incurred for a given type of policy portfolio and the global volume of premiums accrued over the same period for such portfolio.
[53] This index describes the relationship between the microinsurance premiums spent for the insurance offering and service but not returned to policy holders.

professional intermediaries operating in certain triangular relations may increase costs, which are also transferred to policy holders without their intervention necessarily adding value.

3. *A large portion of insured risks are "bundled"*. The types of insurance products offered provide not only limited types of risk coverage, but are mostly offered tied to other types of financial and non-financial services. These products are "bundled" together with loans for their "induced" sale jointly with other services. Otherwise said, these insurance products are not chosen spontaneously among several options. Such lack of choice also entails a lower value for clients.
4. *Renewal rates fluctuate significantly depending on the microinsurance products and the policy holder*. Insurers reported rates between 15% and 70%, which constitute a challenge for insurance companies but also mean policy holders are not receiving all the value the expect from these products because they find costs are extremely high or it is not easy for them to renew their policies. Renewal rates peak when payment is tied to a utility bill.
5. *Lack of research for product design, as happens with most products in Colombia, results in a mass offering of products that do not meet the needs of the target population*. It is impossible to take account of the people's preferences without qualitative market surveys. On the one hand, coverage is provided only through certain insurance types, such as personal accidents and group life. Affordable personal accident coverage provides rather limited protection in terms of types of events and likelihood of occurrence. On the other, most products in the Colombian market do not take account of the people's scant financial education. These clients favor broad coverage, straightforward explanations and streamlined paperwork, as discussed in the demand chapter. Lack of research when designing insurance products becomes evident if we take account of the findings of the SFC survey of insurance companies (81% of Colombian insurance companies), to diagnose the evolution and present condition of financial inclusion throughout the insurance industry. The survey showed "*few entities have detailed data by wage bracket and geographic (rural/urban) area of their policy holders*" (SFC 2013).
6. *Contract papers and applicable processes are not as straightforward as could be expected from products affordable to households with limited knowledge of formal financial services.* Both the policies and the individual certificates for group insurance policies include complex conditions and are written in juridical jargon. Policies are usually very long (often over 10 pages long) and their content is too technical to adequately communicate policy conditions and processes. They are consequently, not well adapted to the microinsurance target population.

3.2.5 The present state of Colombia's microinsurance market

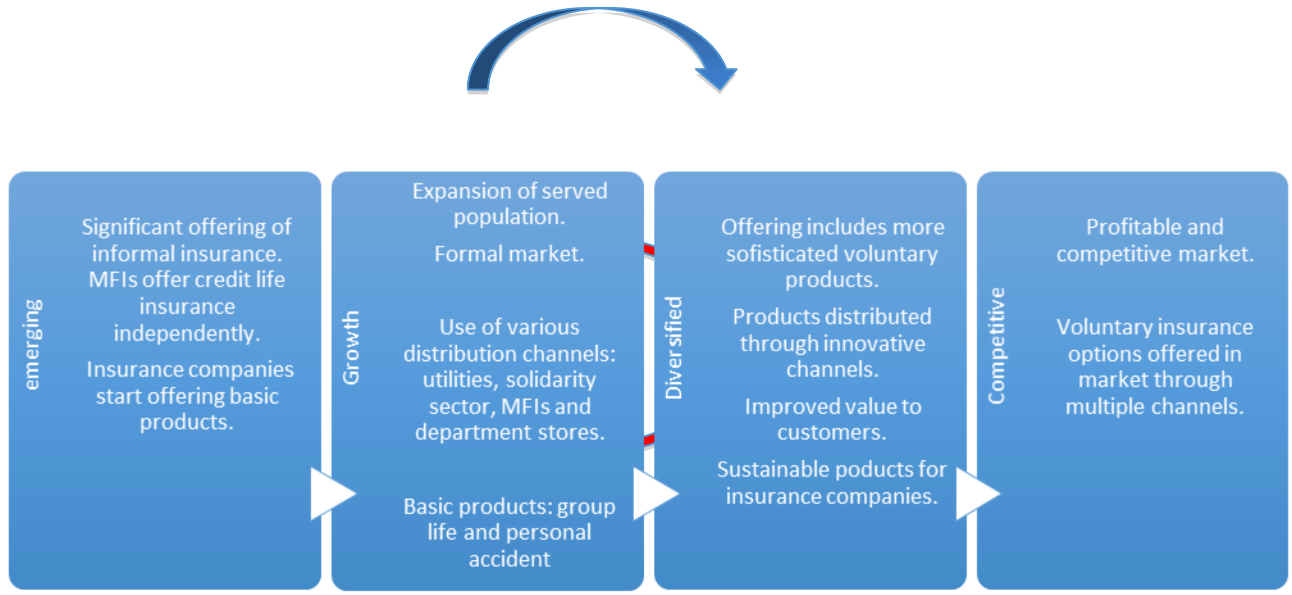
The Colombian microinsurance market is characterized by supply from the formal insurance industry which uses both alternative and traditional channels to distribute its products but which uses transactional platforms to a limited scale. These products are not much diversified generally and do not report a real value to the end users. From this standpoint, the Colombian microinsurance market is still a "hybrid" market[54], in a growth and diversification stage. This description is in line with the microinsurance innovation facility classification prepared by ILO which categorizes markets as "emerging, growth, diversified and competitive" [55]. (Figure 15).

[54] Understood as a market showing the characteristics shared of "credit-based" and "mass" models where the middle class is robust and growing (McCord, Jaleran and Ingram, The Landscape of Microinsurance in Latin America and the Caribbean 2013).

[55] Emerging markets are characterized by large offerings by the informal sector where MFIs provide self-insurance, and in which local insurance entities show little interest. Growth markets are those where the population protected through basic services, generally mandatory products, are increasing and where other types of distribution channels start to be used. Diversified markets are those where the offering of voluntary, end-consumer valued

Figure 15 Development of the Colombian microinsurance market

Source: Prepared by the authors



4 Demand for microinsurance in Colombia

This section explores the characteristics, preferences and perceptions of the microinsurance target population in Colombia. Several sources of information were reviewed. Firstly, information obtained through focus groups organized for this diagnosis[56]. FGs allowed to gain a better understanding of the potential demand for microinsurance and also about the socio-economic characteristics of the potential target audience for microinsurance products. Likewise, these data are key to have a wider view of the risks faced by these groups and the mechanisms they most usually resort to when facing those challenges, as well as the likelihood of their occurrence. Finally, FG findings provided information about poor Colombians' perceptions of insurance products in particular and the insurance industry as a whole. It is worthwhile underscoring the survey's sample was very small, as only 79 persons attended the focus groups, principally from layers 1 and 2, although layer 3 is also an essential segment of the Colombian microinsurance industry target population. It was therefore essential for the consulting team to complement this information with visits to markets and other data available for Colombia, including: (i) a field visit by the consulting team to the Paloquemao market and the

products are distributed through innovative channels. Finally, competitive markets are profitable markets where competition among suppliers of consumer-value products prevail.

[56] The Centro Nacional de Consultoría (a consultancy, CNC) was selected after a call for tenders to organize these FGs. The reunions took place in November and December 2013, after the consultant teams' field visit. A total, 79 interviewees participated in these FGs. Annex A provides the technical information about the reunions organized by the consultancy, and describes the main features of the FGs' participants.

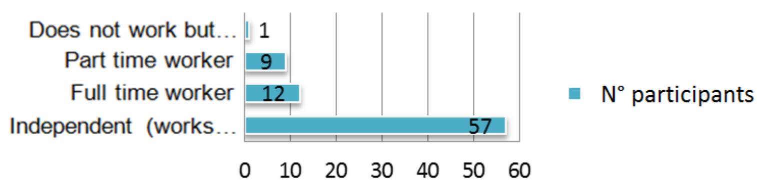
Calima Shopping Mall[57]; (ii) data from the Yankelosvich Acevedo y Asociación (YANHAAS) 2008 report; (iii) the Colombian Longitudinal Survey prepared by Universidad de los Andes 2011 (ELCA)[58]; and (iv) the report of findings from the financial inclusion survey carried out by SFC and BdO in 2013.

4.1 Main features of FG participants

Participant living conditions. These FGs were joined by a total 79 participants (39 women and 40 men) of an average 40.6 years of age. Most participants are not home owners and those who are typically bought it through a mortgage loan. Participants feel paying a monthly mortgage is not an additional expense, but rather equivalent to paying rent. The main characteristics of this social group are their very precarious working condition, with 72% of participants working independently[59] and informally. (See Figure 16); 68% of participants fall in layer 2 (54 persons) and 32% in layer 1 (25 participants)[60]. Monthly incomes for over half of participants are below COP 600,000 (USD 295).

Figure 16FG participants' types of jobs

Source: Prepared by the author with CNC data



Participants' schooling is below the national average[61]: only 23% of FGs' participants have completed their primary schooling. Most participants in the FGs (72%) are beneficiaries of SISBEN's social programs.

Economic vulnerability and most usual expenses. Data gathered at the FGs showed most participants earned incomes insufficient to meet their basic family needs, assessed at between COP 700,000 (USD 344) and COP 1 million (USD493). The most frequent monthly expenses mentioned by the participants, in addition to family and other current expenses, were debt repayment, in particular home loans, as well as other loans with pawn houses and informal lenders.

Unforeseen or unexpected expenses. These are mainly related to health conditions and purchase of medicines. Other unforeseen expenses include those resulting from accidents, home repairs and social and family events.

[57] Plaza de Paloquemao is one of Bogota's main business areas. The Paloquemao wholesale market is located there and is one of the traditional areas for fruit and vegetable supply for retailers. Centro Comercial Calima, a modern commercial center, stands next to it. Plaza de Paloquemao and the neighboring areas are, consequently, the ideal place for sampling informal microinsurance activity, since in a relatively small area we can identify members of the various Colombian social strata. The Mercado de Paloquemao gathers approximately 750 business owners who mostly fall within layers 2 and 3 of the population, i.e. the low and middle low levels. On the contrary, the Centro Comercial Calima is visited mostly by members of layers 4 and 5 (medium and medium high segments). Additionally, many informal business stalls are located in the surroundings of the Plaza mostly belonging to owners from layers 1 and 2 (low-low and low).

[58] ECLA's objective is to provide a better understanding of economic and social changes underway in Colombia.

[59] In other words, on their own account and through their own business.

[60] Although the FGs' sample mainly gathered interviewees from layer 1 working independently, it is worthwhile noticing the trend is for layers 1, 2 and 3 to equally comprise workers in the formal sector who, nevertheless earn low salaries and wages (for instance, manual laborers) so this segment is likewise vulnerable and facing financial constraints. The microinsurance target population, consequently, also includes those low income formal sector workers.

[61] The national average is 37.2%.

Table 13 shows the main types of unexpected expenses faced by low income participants in the FGs as well as their approximate amounts.

Table 13 Unexpected expenses /costs

Source: Prepared by the authors with CNC data

Type of expense	Amount spent in COP
Death of relative	Between 4 and 5 million COP (USD1,968 and USD2,460)
Medical conditions	Visit to private doctor: between 100,000 and 200,000 (USD49-USD98) Expensive medicine: 200,000 – 500,000 (USD98 – USD246) Chronic diseases / disabilities: 500.000 – 1 million (USD 246 – USD492) Surgery: between 4 and 5 million (USD1,968 to USD2,460)
Accidents	Between 1 and 4 million (USD492 – USD1,968)

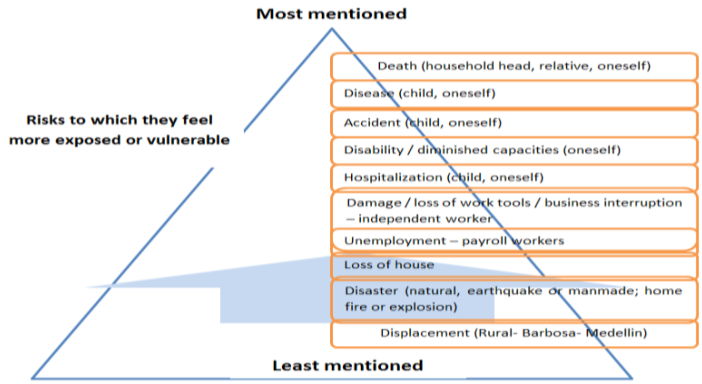
4.2 Target population, risk perception and exposure

FG participants were more concerned about the following risks (i) death, (ii) disease, and (iii) accidents, disability and hospitalizations. In case of death (perceived as the most expensive risk), the required financial adjustments have two main implications. Firstly, the cost related to a death is typically high because families must take debt to face it, with negative long-term impacts in the household's finances. Secondly, they must take into account the loss of incomes resulting from such death. Incomes lost must be taken up by another family member. This feeling of uncertainty and risk of falling into debt can be extracted from remarks by FG participants: *"You don't know when is going to happen" "… because birth and death are a problem, births are expensive and deaths even more"* (CNC 2014). Another latent fear among the people participating in the FGs was the risk of falling sick as that may alter work routines and therefore, have an impact on household revenues. This is particularly important when the sick person is the main source of household income: *"When you are sick you can't work, you can't do anything", "when you are healthy you find a way to work, when you are sick… it's hard". "An accident can leave you unable to work and this disability can last one day, several years or your entire life, it's very worrying".*

Figure 17 illustrates two different levels of the various risks mentioned by the FG participants. As can be gathered, other risks including floods, house damages and theft are perceived as less important than death, disease or accidents.

Figure 17Levels of risk exposure

Source: Prepared by the authors using CNC data



As can be noticed from the above classification poor people attach greater importance to risks which, in addition to having an economic impact, may also imply drastic changes to their families, work and emotional condition. As regards the risks at the base of the pyramid - those which are not given too much importance, a remark made at a FG perfectly depicts the life philosophy of potential policy holders who could face vulnerability and precariousness through a microinsurance policy: *"As long asone is alive and healthy, one can still manage".*

ECLA shows the most exposed risks include (i) disease, (ii) accident, (iii) violence, and (iv) car accidents. The ECLA survey showed 34,2% of survey respondents feel they are most exposed to disease and accidents and violence risks (32.9%) and car accidents (30.8%). Table 12below compares the findings of the three studies as regards risks with the greatest impact on household economies. Table 13reveals flood risks were mentioned only by 6.8% of interviewees.

Table 14 Risks with the greatest economic impact

Source: Prepared by the authors with survey data

Risk	YANHAAS (2008)	Universidad de los Andes (2012)	Focus groups (2013)
#1	Disease	Disease or accident	Death
#2	Unemployment	Violence	Disease
#3	Home theft	Car accident	Accident, disability and hospitalization

Table 15 Risk exposure among low income persons

Source: Universidad de los Andes, 2011

Risk	Percentage
Disease or accident	34.2%
Violence	32.9%
Car accident	30.8%
Occupational accidents	14.1%
Earthquakes	7.8%
Floods	6.8%

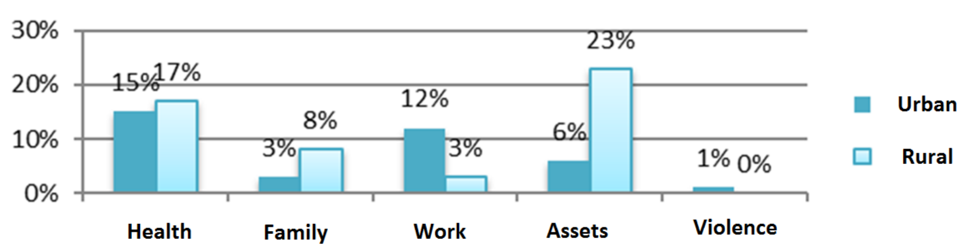
Fires	6.1%
Other natural disasters	5.1%
Does not know	5.0%
Landslide	2.7%
Relative death	2%
Others	8.3%

High nationwide disaster occurrence. ELCA figures show 32% of the 5,448 households included in the urban survey and 47.1% of the 4,720 rural households included in the survey suffered some type of disaster / claim over the last year.[62] Of all interviewees, 33.3% reported an incident in the last 6 months. The survey also showed 23% of the sampled households (comprised in layers 1 to 4) reported loss of land, relocation, theft of goods or livestock, among others while 18% of households reported natural disasters in their community, particularly in the Cundiboyacense and Mid Atlantic areas. Likewise, land issues are mentioned by a high percent of households who are not aware of their ownership rights[63] (Universidad de los Andes 2011).

The most common losses reported in urban areas include health and unemployment issues, whereas household assets and health risks are most mentioned in rural areas. Natural disasters are the losses with the greatest impact in rural areas. ELCA data show the most common incident in urban areas with an impact on survey participants related to (i) health, (ii) unemployment and (iii) other family conflicts (Figure 18). In rural areas, the events with the greatest impact on low income households were related to health issues involving some family member (17%), but also the loss of household assets[64]. (See Figure 18). Events with the greatest impact on the wider community are those classified as natural disasters and common crime. (See Figure 19). According to the ELCA survey, when asked about the events having taken place in the last 6 months, interviewees mentioned disease (16.6%), floods (3.7%) and automobile accidents (2.4%) as the three most frequent risks.

Figure 18 Main claims among urban and rural households, most recent years

Source: (Universidad de los Andes 2011).



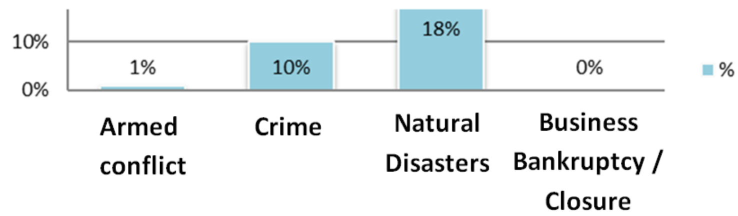
[62]Household events are grouped, from a financial viewpoints, in nine categories. The first five include events about which questions are asked in rural and urban areas. These are events that brought instability to the household, namely: health issues, family unit issues, employment, assets and violence. The last four types of impacts were included in the rural survey and correspond to events that brought instability to the entire community including armed conflict, common crime, natural disasters and business bankruptcy (closure).

[63] Informal ownership is assessed based on cadaster data provided by the Instituto Geográfico Agustin Codazzi (IGAC). The IGAC's cadaster card gathers data on the number of property records for each property. Properties without an ownership record were assumed to be held under an "informal" ownership regime. Informal ownership rights have been debated extensively in Colombia. However, there is little statistical data available. ELCA designed an innovative module to measure informal rural ownership, identify some of its causes and determine its economic impacts. In addition, this module gathers information about property leases and governing contracts.

[64]In rural areas, asset events fell mostly in the "Pest or harvest losses category", with a total 57.6% of all events of this type and "loss or death of livestock" (29.2%) of claims as the two most important household productive assets risks. In urban areas, the most frequent assets-related event was "Theft, fire or destruction of household goods" (39.2%) followed by "Lost or smaller remittances" (mentioned by 29.7%).

Figure 19 Main claims in rural communities

Source: (Universidad de los Andes 2011).



Although differences appear in claims by layers, in all cases unemployment is the most frequent claim, followed by disease in layer 1 and theft in layers 2 and 3. The YANHAAS survey showed discrepancies among the events by household when discriminated according to socio-economic strata. For all surveyed strata (layers 1, 2 and 3), the most frequent event was unemployment (45%, 27.1% and 20.8% respectively), followed by disease for layer 1 (31.7%) and theft for layers 2 and 3 (14.2% and 16.6% respectively). (See Table 16). ELCA reported over one third of the sample in layers 1 and 2 experienced some event in the most recent 12 month period, compared to 29.6% in layer 3 and 24.6% in layer 4. For all layers, the main destabilizing event relates to family members' health. Loss of job is the second most important event for layers 1, 2 and 3 but loses relative ground in layer 4.

Table 16 Claims by social / economic layer

Source: YANHAAS 2008

Shocks	Layer 1	Layer 2	Layer 3
Unemployment	45.0%	27.1%	20.8%
Disease	31.7%	9.5%	15.0%
Death	28.0%	10.9%	11.7%
Theft	20.7%	14.2%	16.6%
Traffic accidents	14.5%	1.0%	9.4%
Occupational accidents	11.8%	7.0%	7.7%

4.3 Risk management mechanisms

Conditions to choose a risk management mechanism include (i) available resources; (ii) the environment, (iii) household preferences; and (iv) households' decision-making styles. As mentioned in previous chapters, poor people perceive they are exposed to a significant number of potential adverse and unforeseen events. A household's potential strategies when rising to various risks and events vary within a wide range. Some aim at reducing, mitigating and facing risks. The range of responses is likewise very wide. However, one of the main conditions for household or micro or small companies when identifying their reaction to a catastrophic risk is availability of resources. Other elements conditioning their response to risks and events are their surrounding environment, the household members' preferences and the way they make decisions within the household

(Universidad de los Andes 2011). Such reactions and strategies, additionally, are dynamic and evolve over time, so the household's behavior pattern will change before and after the shock and also between the time immediately after the event and the medium term.

Most frequent risk mitigation and reduction strategies. This section covers *ex ante* strategies such as purchase of a (formal or informal) insurance policy, diversification of economic activity, savings plans, and membership in savings and loans organizations (Rotating Savings and Credit Association or ROSCAS)[65], among others. *Ex post* risk mitigation strategies generally involve changes in the household's dynamics, such as saving on food, finding a second job or not sending children to school. However, a household's alternative reactions are limited in both terms of capacity and environmental constraints. Their reaction may not have been their preferred option but the only one available to them.

Family loans are the most common way to face risks. Table 15 shows informal sources of financing, such as family loans, are the main way in which poor people face unforeseen events.

Table 17 Main reactions to unforeseen events

Source: Prepared by the authors based on surveys' findings

Position	YANHAAS (2008)	Universidad de los Andes (2012)	Focus groups (2013)
#1	Loans	Non-working family members look for job/ working members work longer hours	Working members
#2	Savings	Migration (moving to relatives' home or abroad)	Drop-by-drop (informal lenders)
#3	Reduced consumption	Savings	Loans from friends

In addition, a significant percent of households reported they did not take any measure in anticipation of potential risk events: between 27.3% in the Pacific Region and 38.5% in Bogota, for urban areas; and between 22% in the Cundiboyacense High Plateau region and 34.3% in the Middle Atlantic region, for rural areas. The most frequent responses in both areas imply using assets and informal insurance or debt schemes[66]. As regards use of assets, 905 responses mentioned spending of family savings to face the event in both urban and rural areas. Another topic of interest is informal debt and insurance. The main reason to get a loan from friends and family is to meet immediate consumption decisions (Universidad de los Andes 2011). Personal savings and lenders (drop-by-drop loans) were also frequently mentioned by the target population in both the focus groups and the YANHAAS survey. It's important to underscore funerary insurance was spontaneously mentioned as a risk mitigation strategy by some FG participants.

[65] Rotating Savings and Credit Associations are created by groups of people who agree to meet for a given period to pool their savings and take loans. Typically, these are informal associations of people who periodically contribute to a common fund which is fully or partially distributed among group members on a revolving basis.

[66] Informal insurance includes diversifying goods and production (in rural areas) or establishing mutual support networks to tackle household problems. In addition, emphasis is made on the people's need to create an informal market for interpersonal voluntary transfers of goods and services.

4.3.1. Access to formal financial services

4.3.1.1. Banking services, including bank savings

"It is not possible to save at banks"; "Banks are not advisable because they charge you for keeping your money and once always loses". (FG participant).

Access to financial services. The population segments under review (layers 1 and 2) and very few FG participants have little if any relationship with banking entities or can access their services. It is important to underscore the deep-rooted lack of trust in and resistance to banks, in particular among survey respondents but toward financial entities, generally. There is a widespread feeling the financial system does not help to create a savings culture among low income people because the costs linked to a bank account destroy interest and create hopelessness. Likewise, this may also be due to lack of knowledge about products specifically designed by financial organizations for those population segments, such as streamlined saving accounts or electronic saving accounts, which specifically aim at reducing the costs for these people to the greatest possible extent.

"With banks is hard; they ask for documents and disbursements take long"; "A bank will lend you money if they realize you have money; otherwise they won't; they study your credit capacity and they don't understand if you ask them for money it's because you don't have it "(FG participant).

The target population does not save much. When examining financial services, it became clear only 17% of interviewees in urban households of layers 1 to 4 reported saving money regularly, while 70% of households in layer 1 save in cash, as they regard access to the banking system as too cumbersome (Universidad de los Andes 2011). In addition, when discussing savings *strictu sensu* only a minority of FG participants reported such habits and, those who do, do not save more than 5% of their income (or possibly an average monthly savings of 15 USD when comparing findings in FGs and the ELCA survey). However, this does not reveal lack of interest in saving but rather their inability to do so because of low income among most households. On the contrary, FG participants did mention savings were very important and most of them said they would like to save money if they could.

"The concept of savings is different. I may save to pay for services, unexpected expenses but that is not saving. That is putting money aside to cover needs. Saving means additional money that I don't need and I am not going to us." (FG participant).

The main objectives of saving for these groups include: (i) improving their households and families' well-being and quality of living; (ii) providing for future projects, goals and plans for their families; (iii) preventing against potential or unforeseen events and (iv) investing in their businesses.

The small percentage of people who joined the FG and have access to banking services mentioned those are not only expensive but also extremely cumbersome because of the many requisites and paperwork required by banks (various types of certificates, identity documents, etc.), which in their viewpoint, only make up for awkward bank paperwork[67].

[67] It is important to mention that only at the FGs in Bogota were there participants who have access to formal bank services.

4.3.1.2 Formal insurance services

Access to and purchase of formal insurance by the target population are low. ECLA survey findings show 14% of urban households lack insurance of any type, while life insurance prevails among layers 2, 3 and 4 (Universidad de los Andes 2011).

Burial or funerary insurance and services, which amount to the same type of insurance for participants, is the second most preferred. Despite difficulties in savings as mentioned by the participants, because they do not possess sufficient resources, it is worthwhile noticing participants do not think their financing of burial insurance are a cost, as they clearly perceive the value of such insurance. The installments they pay on their burial insurance is not too high, compared to the financial gain and the feeling of calm and security. The respondents said a funerary insurance policy is warranted principally because they are aware of the cost of burials, and the need to foresee and plan for such expenses. Consequently, approximately 46 out of 79 participants in the FGs (about 60%) reported having burial or funerary insurance, with almost twice as many in urban than in rural areas. During our visit to the Paloquemao market area the interviewees used the word "insurance" although in fact they had hired a "funerary service" offered by specialized funerary service providers, so, for these cases, the perceptions about the type of insurance are irrelevant. In Bogota, interviewees pay utilities for their burial insurance or funerary support; their monthly payments are made together with their utility bill in amounts fluctuating between COP 5,000 (USD2.50) and 25,000 (USD12.30) monthly. The amounts also vary depending on the number of beneficiaries. In the other cities surveyed and in rural areas, interviewees paid directly to the funerary companies or burial service cooperatives from their local cities or municipalities. The monthly cost fluctuates between COP 4,500 (USD 2.21) and 20,000 (USD 9.80). As in Bogota, the amounts paid also fluctuate depending on the number of beneficiaries. Those who have used the burial or funerary insurance, also mentioned the service included casket, box, vault, plot or cremation, burial, ossuary, hearse, transportation for guests, funerary room rental, funerary mass and flower arrangement.

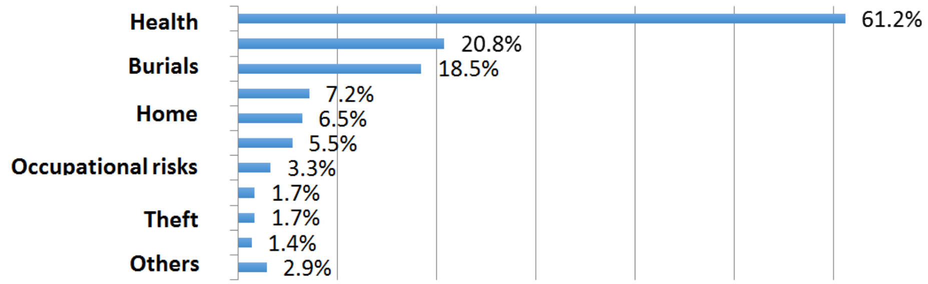
Some respondents also mentioned life and other types of insurance products, with Bancolombia or Colpatria. Monthly payments fluctuate between COP 8,000 (USD 4) and COP 40,000 (USD 20). FASECOLDA data to October 2013 shows the average microinsurance premium for funerary services reaches COP 8,177 (USD 4), or under 1.5% of FG participants' incomes. One of them mentioned having a motorcycle theft insurance policy. The ECLA survey also found 61.2% of the respondents declared having a health insurance policy[68]; 20.8% have a life insurance policy and another 18.5% had burial insurance products[69] as shown in Figure 20. This information apparently contradicts findings from the FGs. However, it can be better understood if taking into account the participants in the FGs belong to layers 1 and 2 where traditional insurance products are less frequent. Participants who own a through a mortgage loan mentioned the importance of buying home insurance that will allow them to repay their debt in case of income interruption or loss. Participants did not discuss the possibility of holding insurance to make up for lost income, if such loss is not connected to other types of coverage. This evidences they lack sufficient information because in some cases social housing insurance is attached to unemployment insurance.

Figure 20 Available insurance products

Source: (Universidad de los Andes 2011)

[68] Among those who said they had health insurance, 87.6% are POS, 5.1% are prepaid medicine or complementary health plans, 4.9% are health insurance and 3.8% are unspecified health insurance.

[69] Among those who said they had funerary insurance, 33.6% are burial not specified, 33.6% are from an insurance company and 32.7% are provided by a funerary agency.



Poor people are most interested in life and home insurance, followed by coverage for personal accidents. Figure 21 and Table 18 show certain discrepancies among types of insurance of greater interest to poor resource people and those they presently hold. The data, however, are consistent with findings at the FGs where participants said they are mostly interested in funerary and life insurance products (layers 1 and 2). by contrasting such interest, with present supply, we will notice a certain co-relationship in the data since the most frequently sold insurance products among the poor resource people according to the financial inclusion survey (2012), and SFC and FASECOLDA data are group life insurance (2.7 million policy holders) and personal accidents (1,07 million policy holders) to December 2013, altogether they account for close to 94% of the market (SFC 2013); (FASECOLDA 2013). Likewise, funerary insurance products (338,491 policy holders) run third followed distantly by individual life policies (14%). However, a lack of relationship between supply and demand for house insurance products is obvious as well (see Figure 24). It is also worthwhile underscoring the findings from the surveys and data gathered at the FGs reveal the need to improve insurance knowledge among this segment of the population, in particular about other types of insurance, such as natural catastrophe and flood coverage products. The ECLA survey showed 7,8% of respondents mentioned earthquakes as a house risk, 6,8% mentioned floods and 2,7% discussed landslides. FASECOLDA statistical data revealed almost no insurance are available for low income people to cover such risks, consequently, this people depend on government assistance to protect them from natural disasters.

Figure 21Comparison between insurance holding and captive demand

Source: (Universidad de los Andes 2011).

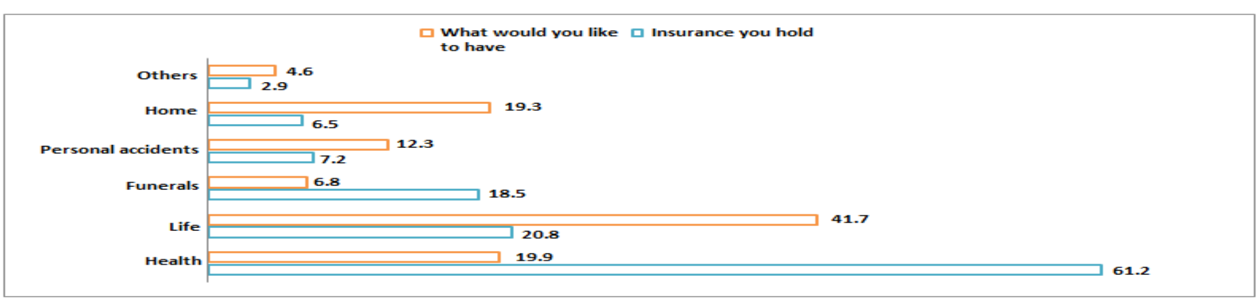


Table 18 Relationship between products, demand and markets

Source: (Universidad de los Andes 2011).

Ranking	Main products in market	Insurance	Demand for insurance
#1	Group life	Health	Life
#2	Personal accidents	Life	Health
#3	Burial	Burial	Home

4.3.2 Access to informal financial services

Informal financial services are a way FG participants face their everyday life risks. These services can be classified in two broad categories: *ex ante* solutions, i.e. savings which, consequently, play a role in anticipating and preventing risks; and *ex post* or reactive solutions to meet a risk or event once it has happened. The first types of solutions include "piggy banks" and rotational savings, while the second group includes family loans, "informal lenders" and asset pawning.

4.3.2.1 Saving boxes or "piggy banks"

This is the simplest and easiest way to save, and the one most frequently mentioned by interviewees to keep their savings. Savings in piggy banks depend on incomes and can be made daily. They are typically used to pay for unforeseen events that require small amounts of money (such as minor illnesses). Participants mentioned it is difficult to save large amounts using this method because the money is readily available in the house and used in most cases to pay for expenses other than emergencies.

4.3.2.2 Rotational (chain) savings

"You know you have to go and give the money and you know the date when you will get it back; I save in a 'chain' every week and we already have COP 4,500,000 (USD 2,224)".

Avery frequent informal savings option gathering friends, family and neighbors typical on these socio-economic levels[70]. Fixed monthly contributions are made to the pool over a certain number of months, equal to the pool members. For instance, ten people will contribute COP 100,000 (USD 49) during 10 months. The fund is distributed periodically so each participant will receive COP 1,000,000 (USD 492) when their turn comes. Nevertheless, the money is not always available when needed. Another major risk is the credit risk for participants who are at the end of the savings chain.

4.3.2.3 Family and friends' loans

Family (in the broadest sense) and close friends are the first source of urgent money. The amounts will depend on the need to be covered and the relative or friend's solvency. The thick social fabric of Colombian society, particularly among poorer people, makes this option possible based on trust and closeness with family and other members of the community. The main advantage of this type of family and friends' loans is that no or very little interest is charged. Payments can also be postponed. On the downside, default may deteriorate the relationship with the lender, while potential lending relatives and friends may not always have sufficient funds to make the loan.

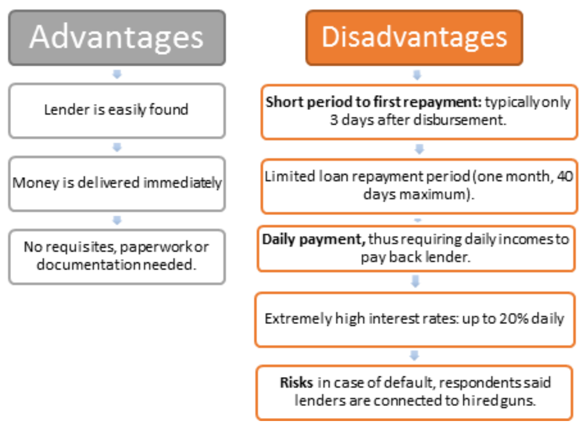
[70] This type of savings is also frequent in other Latin American countries. In Bolivia, for instance, they are known as "pasanakus".

4.3.2.4 “Informal” lenders (drop-by-drop)

Informal lenders provide loans typically known as “drop-by-drop” loans in cities and “daily repayment” loans in rural areas. Money is easily available, no collateral is required but interest rates may reach up to 20% daily. Debt repayment is also daily. This is a well-known and widely used option among these population segments who do not always have access to bank emergency loans or other more affordable loans in their immediate environment. Money lenders are more frequently found in rural areas, where population groups are smaller and where, consequently, lenders know better their potential clients (a key element in successful loan collections). (Figure 22 describes the advantages and disadvantages of “drop-by-drop” loans).

Figure 22 Advantages and disadvantages of “drop-by-drop” informal lender loans

Source: prepared by the authors



4.3.2.5 Pawning

In this option, the borrower receives an immediate amount of cash and leaves a personal piece of property as a deposit or security. The main advantage of this option is the immediate availability of cash. On the downside, the pledged good is not easily recovered and most frequently lost.

4.3.2.6 “Natilleras”

> *“I belong to a “natillera”: My girl got sick and I had to get a loan”; “If I have a need I will get a loan but you have to repay on time; this is sacred money because it has to be distributed in December” (FG participant).*

These schemes are similar to ROSCAS and typical in rural Anitoquia where a culture of familiar, fraternal and solidarity relationships favors this financial scheme. Typically, this option gathers together between 20 and 30 persons. Groups usually form in January. The group determines the amount and frequency of savings deposits. At periodical reunions participants organize activities to grown the pool of money. Participants may request a loan at any time during the year and earn a profit at the end of period, typically distributed in December. “Natilleras” encourage savings to cover year-end festivities and expenses.

4.4 Factors influencing demand for insurance and microinsurance

4.4.1 Lack of knowledge and experience in using insurance

People particularly in rural areas mistake "insurance" for "social security". One of the main outcomes of FG discussions was participants seem to know and value the insurance concept and role, but that perception resulted from their familiarity with (health) "social security", since most of respondents do not have much experience using insurance per se. They confuse "insurance" and "social (security) protection", particularly in rural areas where insurance is called "Seguro Social", i.e. the pension and retirement scheme and sometimes even the occupational safety and health risk agency (Administradora de Riesgos Laborales, ARL).

Traffic accidents insurance is frequently mentioned, probably because it is mandatory.

Poor knowledge of insurance creates wrong expectations about its benefits. Because of poor knowledge about what insurance is and is not, there are many erroneous expectations about its potential benefits. This mistake stems from the opinion insurance is synonymous with savings. Consequently, money paid for insurance is expected to be reimbursed to face events or emergencies. In other words, people think these funds will be available when they need them, regardless of the insured event.

Top of mind and recognition of insurance brands is driven by advertising and "hear say" rather than by a personal service experience. Colpatria, Liberty and Suramericana are the insurance companies best known to and most frequently mentioned by respondents. As proof of scant brand recognition respondents mentioned Bancolombia, which is not an insurance company but which commercializes insurance products through a bank insurance channel.

Respondents who identified insurance companies said insurance is widely available in Colombia and the industry is booming. This perception is probably a consequence of intense advertising in the media. However, such advertising fails to create awareness about the need and relevance of some type of insurance. In addition, because advertising covers a very broad range of insurance products, it often creates confusion among people who lack adequate criteria to choose the best option for them. This may suggest that lack of financial education is one of the most important barriers to expanding insurance and microinsurance coverage among layers 1, 2 and 3, despite FASECOLDA and insurance market's "Vivo seguro" financial education strategy. In fact, available information has not been conceived and designed to target the above mentioned social segments, so they cannot assess the pertinence of the proposed services, nor identify which best meet their needs.

4.4.2 Distrust in insurance companies

Repeated remarks at the FGs revealed the participants 'lack of trust in banks,[71] *and even more so in insurance companies.* Despite limited access by interviewees from layers 1 and 2 to financial services and their weak relationship with bank

> *"Health insurance and so…I have seen cases where old people have contributed their entire lives but then they die and they don't get anything" "They have this reputation that they don't honor their commitment" "A lady paid her insurance and then she died and when her husband went to claim for the insurance they refuse to pay because they told him (his wife) has not included him as a beneficiary …she paid, but she lost her year, he didn't get anything"*
> *(FG participant).*

: Fondo Nacional del Ahorro, Banco Caja Social, Bancolombia, Pichincha, entities, MFIs and the services they provide, there is widespread and deep rooted lack of trust in and resistance to banks. Likely this distorting effect contaminates insurance companies. Additionally, bad experiences by other people also hurt confidence in available insurance products when making a decision to purchase insurance. This is characteristic of a highly mis-informed population who are not aware of available products, the peculiarities of their value proposal and the products' conditions, benefits, clauses, etc. This panorama strengthens the feeling of distrust toward insurance.

"People have insurance because they have money" (FG participant).

The only exception to this perceived distrust is the case of companies providing funerary insurance or services. Renowned companies are more highly valued when they provide funerary support, whether insurance companies or funerary service providers. Respondents who lack funerary support insurance did not perceive any differences in funerary offerings and services and were unable to identify distinctive traits among the suppliers or their products.

4.4.3 Cost and access issues

Cost is a strong inhibitor of insurance purchases. Income and expenses among people in layers 1 and 2 do not contribute to larger purchasing. Consequently, the microinsurance target population is more likely to belong to layers 2 and 3 that have a higher purchasing power than members of layer 1.

"I was once offered insurance through the company because they had certain agreements and got a discount" (FG participant).

Access to insurance is also key. FG participants said one of the best ways to improve processes is through advisors who personally call in at potential buyers' homes or call them on the phone. The increment in the product's price from hiring these advisors was not mentioned by participants. Because of poor knowledge of insurance and the need to understand insurance purchases, counting on an advisor ensures a better understanding (of these products). FG participants said direct contact with those advisors was needed to create trust and a sense of proximity. Their preferences about the commercial strategy, consequently, point to personal channels and mechanisms, including house and telephone calls, workshops, awareness and documentation days, customized advice and dissemination through public address systems. Payroll (formal) workers get insurance information through their employers who have arrangements with insurance companies.

Insurance is perceived as distant and excluding. Participants regard themselves as an unserved segment of the population. This is especially clear among people working in informal economic activities, as were most of respondents. This funding suggests industry has not developed products and sales mechanisms fitting the needs and possibilities of this population.

4.4.4 Product design

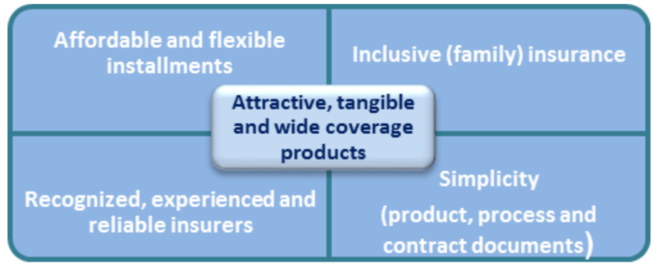
"I don't have such a high priority; I don't have a car, a house, then I don't need it" (FG participant).

GF findings showed the target population is mostly interested in funerary and life insurance products. However, most participants do not understand the difference between them. This is reflected in their difficulty in understanding the conditions and benefits of each product. Participants showed scarce interest in other insurance products as they do not seem to cover their risks.

Based on information compiled at the FGs, Figure 23 shows the basic elements that should be included in a microinsurance product to make them attractive to poor people.

Figure 23 Elements of an attractive microinsurance product

Source: Prepared by the authors based on CNC data



It is crucial to underscore FG participants identified these characteristics were essential despite their lack of insurance experience. Intuitively they have a very clear idea of what a product should and should not provide, in terms of the product's design, coverage and the provider company. Their main suggestions related to the product's relevance and tangibility. They want insurance "*that will make it attractive so people will realize the importance of having insurance",* as an FG participant said*.*

FG remarks to make products tangible and attractive. To accomplish this goal, products must:

a. Provide wider coverage, i.e. cover various risks ("bundled products"): *"Policy holders should have something against every risk, like accidents, disease, a crumbling house, a product that covers everything with one single package*".
b. Charge moderate installments and allow for flexible payment terms (monthly, quarterly or half year). FG participants said the average range for affordable payments was between COP 10,000 and COP 30,000 monthly (USD5 – USD15). Some individual respondents said they could pay at most COP 40,000 (USD20). However, FGs are not sufficiently representative and, as mentioned earlier, as often happens in FGs, participants report figures that do not necessarily reflect their capacity to pay, but are reported under peer financial pressure. Participants would be embarrassed to change their statements or report lower purchasing capacity.
c. Include all family members, without age limits.
d. Offer simple products and processes. "An easier more affordable process." Participants said companies include "*some clauses and generally in small print that one never reads, and they never provide a 100% coverage as one usually thinks.*"
e. Walk the talk. Although most FGs participants don't have any formal insurance experience, bad experiences by other people hurt the credibility of insurance products and their benefits. Participants said companies should "*be more honest when selling*" and "*honor their promises because sometimes they offer plans and when the emergency arrives they tell you that is not what we paid for*".
f. Be offered by recognized, experienced insurers. Transparency, honesty, seriousness, responsibility and experience are all desirable values of an insurance company.

5 Public policy, oversight and regulations

5.1 Public policies

This chapter includes a cross-cutting analysis of some public policies aimed at encouraging, promoting or restricting, directly or indirectly, Colombia's microinsurance market development.

The Colombian government is committed to encourage access to insurance as part of its financial inclusion strategy with a clear emphasis on encouraging access to insurance coverage against catastrophic events. This commitment was made obvious not only through PPPs aimed at fostering Colombia's microinsurance market development but also by recognizing that access to insurance is an essential tool in reducing vulnerability and poverty against the overall background of financial inclusion. In this respect, the 2010-2014 National Development Plan[72] recognizes as one of its priorities to "*ensure inclusion in the financial system*". This priority was also made evident in the recent adoption of ENIF by GOP (See Box 4); the 2009 financial reform[73]; establishment of BdO; issuing of Financial Inclusion Reports by BdO and SFC and the submitting of the Financial Inclusion Draft Law by the Ministries of Economics and Information Technologies and Communications, last April 2014.

Box 4 Five areas of the Colombian Financial Inclusion Strategy

Source: SFC

ENIF key areas

ENIF was presented in March, 2014. Its priorities are organized around five topic areas. In all cases relevance is given to adopting responsible operator practices:

1. Promoting use of financial services by households through mobile banking, product design matching their needs and encouraging new points of access at commercial establishments.
2. Access to and use of financial services in rural areas by reviewing the present subsidies mechanisms in providing financing to the agricultural industry.
3. Access to credits for SMEs through the movable property (chattel) guarantees registry and through a review of the factoring transactions regime
4. Financial education strategy.
5. Bringing transactional services to excluded populations by creating a new streamlined financial license (payments, savings and deposits specialized companies).

The NDP 2010-2014 included a special chapter on the particular importance of insurance, especially that related to catastrophic events and microinsurance, as part of financial inclusion efforts. The Colombian government's 2010-2014 NDP aimed at identifying:

> "*the necessary measures to promote the design of new insurance products aimed at mitigating vulnerability of the people before all kinds of risks and, specially, those relating to climate change. Simultaneously, other strategies will be introduced, including financial consumer education, to encourage creating an insurance culture and persuading people to seek for protection through market-driven mechanisms.*" (DNP 2010, 135)

[72] The 2010-2014 NDP was enacted by Public Law 1450 dated 2010. The "Foundations of the National Development Plan 2010-2014" "document is included in the law.

[73] Among the objectives of the 2009 financial reform were the need to remove barriers to deepen financial markets and effectively protect financial consumers. Chamber of Representatives draft Law 282 dated 2008.

Likewise, the Development Plan for 2010-2014 recognizes high risk exposure and the use of informal mechanisms for risk management because of limited access to insurance increase vulnerability and reduce the opportunities to defeat poverty. The document proposes to improve microinsurance supply throughout Colombia. As mentioned earlier, the Colombian government has placed particular emphasis on insurance to cover losses in cases of catastrophic events, a decision triggered by the significant losses Colombia experienced during the 2010-2011 winter and the La Niña weather oscillation[74]. It is also worthwhile noticing that, as mentioned in the chapter on demand, natural disaster insurance tied to climate change is not a priority for the target population.

The Colombian government is committed to move forward its Periodical Economic Benefits Agenda (Beneficios Económicos Periódicos, BEPs) and encourage savings. As will be seen below in the product regulation section, the Colombian government delivers minimum monetary benefits (BEPS) for an amount below the minimum pension. Microinsurance may be used to promote the above products as a way to foster savings.

Promoting transactional platforms is an essential component to move forward the Colombian government's financial inclusion strategy. The Government of Colombia recognizes the importance of using such platforms to introduce more sophisticated procedures and transactions. In its 2010-2014 Development Plan, the Colombian government proposed four strategies (DNP 2010, 131): (i) Ensure a permanent formal financial supply at locations where coverage was effectively expanded; (ii) Support access to the financial system by non-served people; (iii) Deepen the use of financial services through a wider range of financial products that meet the needs of various population segments; and (iv) Introduce initiatives to ensure quality economic and financial education for the entire population. To meet with its first strategic objectives, the Colombian government encourages creating and regulating two tools: branchless banks and mobile financial services. The 2010-2014 Development Plan underscores branchless banking should be encouraged to expand the volume of transactions, with an explicit mention to payment of "small amount insurance premiums" (DNP 2010, 132)[75]. SFMs have made major strides in Colombia, both at institutional and regulatory levels[76]. The Information Technology and Communications Ministry has played a very important role through its "Vive Digital"[77] (Live Digital) program and by sending to Congress together with the Finance and Public Credit Ministry a draft Financial Inclusion Law, whose main focus is to create specialized deposit and electronic payment companies.

The Colombian government is committed to a national financial education strategy. Although presently Colombia lacks a national strategy, clear progress has been made toward its adoption. Firstly, an Executive Order (Decreto 457) from 2014 establishes the Cross-agency Committee for Economic and Financial Education. This Committee is comprised of several task forces charged with performing a detailed analysis of certain issues, namely: (i) the formal education system; (ii) the working population; (iii) financial education of retirees; (iv) small and intermediate companies; and (v) vulnerable people. Secondly, financial education is recognized as an essential component for promoting financial inclusion. Thirdly, the draft recognizes that financial education is a consumer's right. In the fourth place, the National Development Plan Law for 2010-2014 determined the Ministry of Education should include financial and economic education components in school study programs. In the fifth place, SFC has shown interest in involving other public and private organizations in

[74] In 2010-2011 a national disaster economic, social and environmental condition was declared on grounds of serious public catastrophe. Presently, Colombia is implementing an Emergency Response Action Plan, as a result of its past experience during 2010-2011 winter.
[75] Regulatory details are shown below in the corresponding oversight chapter.
[76] Regulation issues are further addressed in section 5.
[77] The Vive Digital Plan is Colombia's technology plan to provide mass access to the web and build the nation's digital ecosystem.

designing such financial education programs[78]. Next, the "National Financial Education Strategy" adopted by various government agencies (Ministry of Finance, the Ministry of Education, the National Bank, SFC, FOGAFIN, FOGACOOP, and the Securities Market Regulator)aimed at providing an overview of Colombia's financial status and determining the steps for adopting the financial education strategy. This joint document prepared in 2011 resulted in a draft law sent to Congress to create a new regulatory framework for financial education. However, this draft law (082 dated 2011) was dismissed[79].

Colombia promotes mandatory insurance for several types of risks. In Colombia there exist many mandatory insurances operating at national and local levels, including the mandatory traffic accident insurance, insurance for co-ownership of shared goods, building project insurance; public infrastructure, transportation and mortgage goods and interests, complementary labor insurance and others. Since 1993, all state-owned goods and equity must be fully insured by law. In addition, financial organizations under SFC oversight are mandated to document fire and earthquake risk insurance covering mortgaged properties, before loans can be awarded. Credit life insurance can be requested by lending organizations[80]. At present, after an initiative from the Ministry of Housing, Congress is discussing a draft law[81] to introduce mandatory new home insurance to protect houses against potential degradation. This insurance would be bought by building companies. Consumers protected by such mandatory insurances are not always aware of their existence (Quintero 2012). Therefore, regulations emphasize the dissemination of clear information, for instance through the SFC and insurance companies' websites.

Interest grows in encouraging coverage against natural disaster losses. Colombia already has in place a national natural disaster management policy[82], which recognizes the importance of risk transfer through insurance. Likewise, Colombia has in place a climate change strategy (the National Climate Change Adaptation Plan) included in its National Development Plan for 2010-2014, where risk management is a central component. Progress in these two agendas was a consequence of the impact of the 2010-2011 Winter Emergency. As a consequence of all such policies, presently the Ministry of Finance, together with the World Bank, are leading a Disaster Risk Financing & Insurance (DRFI) project, comprised of four elements: (i) defining coherent public policy objectives in line with DRFI; (ii) evaluating natural catastrophe risks for preparing financial alternatives; (iii) designing an effective program for insuring public assets against natural disasters; and (iv) budgetary management of disaster risk (GFDRR 2013). Interesting experiences were identified in Bogota and Manizales cities. It is worthwhile underscoring the "Manizales predio seguro" (Manizales safe property) program provides collective insurance for disaster damage through voluntary underwriting of insurance products[83] for layers 1 and 2, since 1999. This product is offered through PPPs where the local municipal government collects premiums and bills policy holders together with their property tax bill. An attractive feature of this product that once a given percent[84]of insurable properties within the municipal jurisdiction[85] pay their damage insurance premium, the product's coverage will be extended to other properties that are exempt from property tax because they belong to social layer 1 and 2 owners(Cardona Arboleda 2007). Unfortunately that

[78] FASECOLDA submitted a proposal to include financial education issues for insurance and the debates of the task force established by DPS, the national extreme poverty agency BdO, DNP and the Ministry of Finance.
[79] Draft Law 082/2011 (House of Representatives), submitted by Juan Carlos Martínez Gutiérrez
[80] More recently and to prevent increasing cost to consumers from hiring such insurance products, Decree (Executive Order) 673 was enacted in 2014. This decree will be analyzed further in section 5.
[81] Draft Law 029 dated 2013.
[82] Law 1523 (2012) enacted the national disaster risk management national policy and created the National System for Natural Disasters Risk Management, likewise, Decree (Executive Decision) 4147 (2011) created the National Unit for Disaster Risk Management.
[83] With the Manizales Municipal Government as policy taker.
[84] At present, 20%.
[85] Tax-paying properties are eligible for insurance.

minimum percent required was not reached from 1999 to 2004. After several studies and with support from the World Bank and DNP, the product was adapted in 2006 so the insurance entity would provide partial coverage to exempt properties even if the required minimum percentage is not reached (Campos , et al. 2012).

5.2 Oversight

SFC's main objectives include protecting the financial system's stability and consumers. Oversight of the insurance market is a responsibility of the Executive Power[86]which delegates its mandate to SFC[87].Taking into account that the system's assets are in the hands of a few financial groups or clusters, comprised of organizations of varying types, a specialized, comprehensive, consolidated oversight is needed to follow up transactions and exposure among entities within the same group or cluster, and provide timely warnings of potential systemic issues. SFC's strategic guidelines for 2010-2014 include: (i) SFC's organizational strengthening; (ii) building a risk-based oversight model through its integrated oversight framework (Marco Integrado de Supervisión, MIS); (iii) strengthening the prudential requirements applicable to entities under its supervision; (iv) protecting financial consumer; (v) enhancing financial inclusion; and (vi) developing the capitals market.

SFC is interested in fostering microinsurance and is presently conducting efforts in this direction. This organization's interest in the insurance industry is significant[88] and can be explained from a twofold standpoint: (i) interest in including insurance in the debate to promote financial inclusion; and (ii) ensure adequate consumer protection. The regulator is interested in determining whether new consumers are properly protected.

SFC is in permanent contact with industry players, in particular insurance companies and FASECOLDA CM. the various stakeholders interviewed for this project agreed such contexts have been extremely profitable to enhance SFC's knowledge about the so-called microinsurance products currently available in the Colombian market. However, both parties also emphasize the need for more formal relations.

SFC has made a significant effort to get closer to consumers nationwide, principally through efforts to provide itself with the infrastructure and technology needed to ensure consumer protection across Colombia (SFC y BdO, 2014).

Given the diversity of stakeholders in microinsurance product distribution, other oversight agencies may also get involved; however, this makes evident a weak consumer protection. Although several commercialization channels for distributing microinsurance products are not supervised some others are, although through supervision entities different from SFC. Such is the case of utilities under the Utilities Superintendence's oversight or supermarket (retail stores) under the oversight of the Industry and Trade Superintendence and cooperatives under supervision of SES. Likewise, regulators concerned with transactional platforms such as cellular telephony carriers may also be involved, as happens with the Communications Regulatory Commission (Comisión de Regulación de Comunicaciones, CRC). As a consequence, the microinsurance target population may lack clarity about the identity of the policy insurance carrier, a fact that was underscored in the demand chapter in this report, and so they will assume the distribution entity carries the policy and therefore will file

[86] Article 189 section 24 of Colombia's 1991 Constitution and Article 10 under Law 43 (1993).

[87] SFC was created in 2005 from the merger of the Colombian Bank Superintendence and its Securities Superintendence. This merger responded to an initiative to set up a new mechanism that would better address realities in the Colombian financial system.

[88]Proof of this is SFC's interest in joining the project and the strong support all insurance-related teams within SFC gave this consulting team

whatever complaints arise before that company's regulator. This has happened before, particularly concerning an insurance product distributed through a public services utility. In such event, the consumer said he had been put under pressure and received erroneous information from the sales force and that, despite not having given his consent to sign the respective contract, he was charged for insurance products through his gas bill. In this particular case, the consumer filed a complaint before the Utilities Superintendence (Superintendencia de Servicios Públicos); [89](Malaver 2011).

5.3 Regulatory impacts on the microinsurance market

Applicable regulation. Not only insurance activity and insurance contract regulation apply but also all types of

regulations that may have a beneficial or detrimental impact on participating entities, as well as on any of the stages applicable to the design, offering, distribution and use of microinsurance products. (See Figure 24). All the above generally concern consumer protection, promoting access to financial services, tax rules, data protection law, e-money, mobile banking, social security issues, and others.

The Colombian microinsurance market has grown without a specific regulatory framework for either fostering its expansion or removing obstacles to it. The Colombian insurance industry did not require specific regulatory incentives to offer accessible and affordable insurance products in the Colombian market, specifically as regards microinsurance. Spontaneously, industry through FASECOLDA, has taken leadership not only in offering this types of products, but also in setting up the CM which, in addition to compiling important detailed information about microinsurance products offered by insurance entities, is run a discussion forum along access to insurance nationwide. Nevertheless, the purpose of this diagnosis is to provide the grounds for encouraging sustainable development of a responsible microinsurance market focused in the needs and peculiarities of layers 1, 2 and 3. As mentioned in earlier chapters of this diagnosis, some characteristics of the Colombian market allow drawing as a preliminary finding that some road still needs to be travelled before accomplishing such objective. Against this backdrop, it is crucial to analyze in detail whether the existing regulatory framework is sufficiently conducive to an expanding responsible market for the benefit of these products' target population.

Although no microinsurance specific regulation is in place, the recent financial reform emphasized government should encourage access to financial services and insurance among the poor resource population and small and intermediate companies. Article 24 under the 2009 financial reform holds an objective of financial activities intervention should be to "*promote access to financial and insurance services by resource poor people and*

[89] The consulting team also became aware of complaints filed before SFC, according to which charges were made for insurance product to new property tennants who were not, however, benefiting in any way from such insurance and refuse to pay the corresponding expenses on a behalf of a third party.

small, intermediate and micro companies"[90]. Likewise the Colombian government has availed itself with the tools needed for such intervention by creating the required powers for rule and regulation enactment and creating tools to facilitate access to financial and insurance services, as well as others that involve management, use and investment of public's deposits from resource poor people, as well as small, intermediate and micro companies, and also to create the conditions and mechanisms that will allow developing such services by entities involved in the above described activities[91].

Colombian regulations recognize consumer protection as one of its pillars. For this purpose, it encourages use of tools for financial consumer empowerment and to make them responsible decision makers. When scrutinizing regulations applicable to microinsurance it becomes obvious consumer protection is both a core and cross-cutting issue. This objective is evident when we review of the methodology for assessing the microinsurance consumer protection designed by the microinsurance network for the specific Colombian case (Zimmerman, Magnoni and Camargo 2013). This reviewed the stages followed in protecting microinsurance consumers prepared in 2012 (BMZ, MIN & GIZ 2012) regulatory and supervisory entities who followed up the financial and insurance industries where emphasized the importance of consumer protection throughout all the stages of financial services rendering, i.e. from the stage where product information is provided through eventual conflicts resulting from service rendering. This trend is further underscored by the fact that between 2009 and 2011 two other important regulatory bodies about such issues have been enacted including the financial reform law, which incorporates the Financial Protection Consumer Regime (Régimen de Protección al Consumidor Financiero, RPCF) and the Consumer Protection Statute (Estatuto de Protección al Consumidor, EPC), but also by the fact SFC has devoted a major portion of its budget to effectively protect financial consumers[92]. Nonetheless, regulations also take stock of the fact that the consumers themselves should adopt good self-protection practices, including assuring the concerned entity is a regulated body; read contract conditions; ensure they are aware of the steps to be followed to file complaints or clarifications among others[93]. Regulations likewise underscore the importance of supporting consumer protection organizations recognized by constitutional law, and also recognizes the National Consumer Protection Network established in 2012[94].

To review the way in which regulations impact the growth of responsible microinsurance in Colombia, we will follow the steps shown in Figure 24, presenting the processes that apply to microinsurance products. We will also review the way in which regulations impact each stage of the process. This will allow to examine the way these regulations impact: (i) insurers; (ii) commercialization channels; (iii) transactional platforms; (iv) product design processes; (v) supply, marketing, underwriting and management processes; and (vi) all other steps relating to complaint, grievances, and conflict resolution management.

5.3.1 Insurers

Both insurance cooperatives as well as insurance companies may engage in insuring activities in Colombia after obtaining SFC's license. Only authorized entities to engage in providing certain types of insurance by SFC may

[90] Article 46 under the Financial System Organic Regulations (EOSF).
[91] Article 48, EOSF.
[92] According to the Financial Consumer Protection Regime (RPCF) included in the financial reform law, financial consumers are those clients, users and potential clients of insurance companies. Users are defined as individuals who without necessarily being a client use such services while potential consumers are individuals who are engaged in negotiations with an insurance provider to purchase a service they render. Article 2 RPCF.
[93] Article 6 under RPCF and Article 3.2. under the Consumer Protection Statute.
[94] Articles 75 and 85 of EPC.

participate in such activities[95]. Those entities must meet prudential requirements, including: minimum capital, solvency margins, technical reserves and investment regime. Licenses awarded to the cooperative sector encourage developing microinsurance in Colombia, to the extent it is assumed insurance cooperatives have a clear social mission, have a more detailed knowledge of the microinsurance target population, and can use the solidarity sector as their distribution channel.

Cross border insurance trade has been encouraged more recently. Article 61 under the 1328 Law (2009), enacted in July 2013, allows foreign insurance companies to provide insurance to Colombian residents in the national territory products that will cover risks linked to international commercial aviation and space launching and transport. Likewise, Colombian residents are allowed to purchase abroad all types of insurance policies, excepting those relating to the social security system, mandatory insurance and any other derived or requiring purchase or existence of such insurance products. Government is not allowed to act as an insurance policy holder, taker or beneficiary of foreign policies. However, the Ministry of Finance is authorized to take insurance to cover natural disaster risks. This decision put pressure on local companies to compete with international companies for their respective market share, a tool to enhance their competitiveness. SFC requires foreign entities wishing to sell insurance products for international and satellite goods transportation to register with the Colombian regulator.

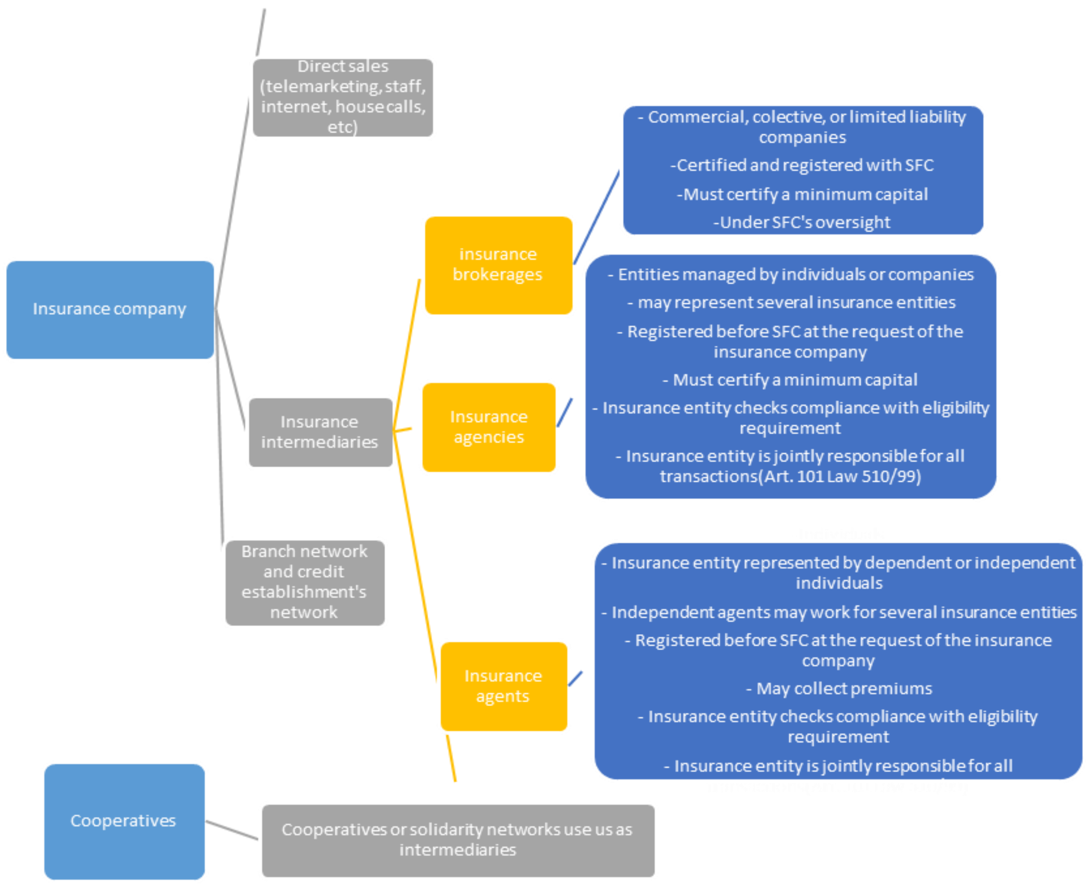
Although burial services comprise certain elements that make then similar to an insurance product, they are offered by funerary service companies and not by insurance entities. These companies are not under SFC's oversight, fail to comply with prudential rules requested from insurance entities, nor do they meet the financial consumer protection standards required from insurance companies.

5.3.2 Commercialization

Colombian regulations allow insurance products to be sold to the public, principally through direct sales and insurance brokers. Regulations also allow commercialization through loan establishment networks when regarding mass insurance products. No regulatory basis is in place for other types of entities, different from credit establishments to perform as "commercialization channels. Only insurance entities and professional insurance intermediaries (brokers, agents and agencies) may "intermediate" insurance contracts[96]. Nevertheless, Colombian law, allows to "commercialize" insurance products through financial establishments' networks (Camargo and Montoya, Microseguros: Análisis de experiencias destacables en Latinoamérica y el Caribe 2011). The Colombian regulatory framework does not allow to commercialize insurance products through other types of establishments. Consequently, at present, some products are commercialized within the framework of group or collective insurance contracts where the "aggregator" is the policy taker and its clients the policy holders or policy-beneficiaries. (Figure 25).

Figure 24 Insurance commercialization

[95] Artículos 150 y 335 CP Artículos 5, 38 EOSF y Artículo 72 Ley de Cooperativas - Ley 79/88
[96] Article-43, 54 EOSF; 2.30.1.1.2. Decree 2555/2010



Insurance companies may offer the products through their staff, the web or through telemarketing, as part of their direct sales strategy. This scheme is available, in addition to direct sales at their establishments, offices and point of sales[97]. In all cases, insurance companies must warrant their staff offering such products to the public must be fully trained about their offering and the consumer protection measures to which the latter can resort[98]. Training handbooks must be reviewed and updated regularly[99]. Regulation is in place to protect consumers in cases of remote sales or through non-traditional methods[100]. Promotions are allowed for internet sales but signing of the corresponding contract requires the client's filling a consent form as a measure required to fight money laundering.

5.3.2.1 Insurance intermediaries

[97]Article 93 EOSF, Decree 2605/93.
[98] Article 8.a.i. and 8.a.ii. under RPCF; EPC and Decree 1499, 2014.
[99] Article 5.6. External Letter 015/2010
[100] Chapter V under title III, EPC.

Brokers, agents and agencies must fulfill the eligibility and honesty requirements, and in some cases put up a minimum capital to engage in insurance intermediation activities. Insurance intermediation is a regulated activity in Colombia because the information and advice provided when sending an insurance product to the public requires not only sound knowledge but also the providers' honesty and financial capacity. Because of this, consumers depend significantly on the entity "intermediating" his / her relationship with the insurance entity. Insurance brokers must be registered and SFC will verify whether they meet with the requisites evidencing their honesty, probity and financial capacity[101]. Additionally, insurance entities are mandated to ensure agencies and agents meet such requirements and are directly responsible for any of its transactions[102]. SFC has the power to check at any time such insurance intermediaries meet those requirements. For instance, article 206 under EOSF gives SFC the right to certify insurance brokers, agents and agencies are fully knowledgeable with the product they offer[103]. Insurance companies must keep a record of all agencies[104]. The possibility of raising the training standards required from agents and agencies is under review.

Insurance entities must train insurance agents. Training programs must be sent to SFC. Generally, insurance companies meet those requirements through the agent training courses taught by FASECOLDA[105].

Insurance cooperatives can rely on the cooperative network to act as insurance intermediary. This option is included in law 79, dated 1988.

The financial reform eliminated the article under EOSF forbidding insurance payments from paying commissions or any other type of compensation for intermediation activities to persons other insurance intermediaries. However, the impact of such abrogation is not clear. Article 188 under EOSF prohibited such practice, however Law 1328 (2009) removed that article in 2013. The logical impact of such removal would be to allow insurance companies to pay commissions to other entities different from insurance intermediaries. Nevertheless, because at present only insurance brokers, agencies and agents are authorized to intermediate insurance products, that reform is not enforced.

5.3.2.2 Other commercialization channels

Mass insurance product commercialization to the extent they meet certain requirements is allowed only through credit establishment networks. Commercialization through the credit establishment network is only possible for certain insurance products meeting the following characteristics of universality, simplicity, and standardization, and "may be commercialized massively because they do not require meeting specific conditions by the potential insured persons or interests."[106] From a different perspective, these articles introduce mass insurance commercialization in Colombia. In this regard, the Single Decree authorized all collection, reception, payment, transfer, money delivery, application delivery and reception, documents, reports, newsletters, certificates, and generally all other information related to using the network. The Single Decree defined those concepts as follows: (i) universality, authorized policies for various insurance types must protect the natural persons' interests and regular risks; (ii) simplicity: authorized insurance policies must be

[101] Requisites applicable to insurance brokers: Article 40, 54 EOSF; Articles 1347-1353 C.Co

[102] Agents and agencies' requirements are set forth in article 41-43, 54 EOSF. Agencies must hold a minimum 16 SMLMV capital. Article 80.1 EOSF. Articles 91, 98 and 75 under Law 45/1990. Insurance entities are responsible for the transactions performed by their agents and agencies (Article 2.30.1.1.5 Single Decree).

[103] It is assumed management's knowledge about insurance intermediation derives from their management position in an insurance entity for at least 2 years or if they performed as insurance consultants over a similar period. Article 2.30.1.1.3 Single Decree.

[104] Article 2.30.1.2.5. Single Decree

[105] Article 3 Decree 2605 (1993).

[106] Article 6, Law 389, 1997.

easy to understand and managed by natural personal; and (iii) standardization, the language used in authorized policies must be similar for all natural persons, depending on the type of interest coverage and, consequently, should not require specific conditions or impose differential treatment to insured persons. Additionally, the Single Decree defined "mass commercialization" as the "*distribution of policies for the authorized types of insurance through the credit establishments and network, provided they meet all the conditions and requisites described above.*"

The insurance types regarded as most appropriate for this kind of commercialization, include the mandatory traffic accident insurance (SOAT), comprehensive family insurance, professional multi-risk, automobile insurance, burial insurance, personal accident insurance, unemployment insurance, education policies, individual life insurance, voluntary pension products, and health policies. The Single Decree emphasizes that under no circumstances may "*professional capacities be delegated or credit establishments be authorized to engage in activities for which it has not been legally licensed.*"[107] In addition, the Single Decree established the following conditions to use the network: (i) writing a contract for the remunerated use of the network, same which will be sent to the SFC before it is signed;[108] (ii) training of individuals who will promote and manage those services; (iii) adopting the necessary measures so the public will clearly identify the user entity and the credit establishment used by the network; (iv) mention of the credit establishment obligations limited to appropriate compliance with instructions given by the user entity; and (v) remuneration for services.[109]

More recently, the first and second type of bank insurance were mainstreamed in Colombia, namely "using the Credit Establishment Network" and banking agents were allowed to provide direct services to certain entities, excluding insurance entities. At present, "Use of Network[110]" has also been extended to another type of financial entity[111] different from insurance entities, insurance brokers, and capitalization of companies originally authorized to use the branch network (Art. 93 EOSF), and commercialization using the entire credit establishment network (Art. 5 Law 389, 1997). The mainstreaming initiative was a tool to mitigate regulatory arbitrage by including other entities and expanding the number of authorized transactions. Moreover, Decree 2672 dated 2012 allowed using bank correspondence also by other types of entities to provide a different type of service, therefore tacitly modifying the concept of bank correspondent to third-party correspondent; however, throughout this paper we use the "bank correspondence" term although at present they can provide services different from banking services.

Although insurance entities were not authorized to directly resort to banking agents, industry has filed a draft amendment. Industry filed with the Ministry of Finance a proposal to modify bank correspondents, including their authorization to: (i) selling insurance types meeting the universality, simplicity, standardization, and mass commercialization conditions defined by Article 2.31.2.2.1 under the Single Decree; (ii) collecting premiums and paying indemnities; (iii) delivering and accepting insurance applications and their attachments, policies and attachments, general conditions, specifications and abstracts, certifications and documents needed to file complaints.

[107] Article 2.31.2.2.3., Single Decree.

[108] Network users shall send SFCs insurance policies to be commercialized through the network; if the contract clauses have already been filed; only the actual use will be reported.

[109] Article 2.31.2.2.3., Single Decree. (Article 93 EOSF, Law 389/1997, Articles 2.31.2.2.1. to 2.31.2.2.4., 2.34.1.1.1. to 2.34.1.1.6. Decree 2555/2010; Article 3.6.3.7. CBJ; Decree 1367/1998, Decree 2673/12)

[110] The "Network" was defined as a "set of media or elements through which providers can provide the network users' services to the public at large. They include offices, staff, and information systems." Article 2.34.1.1.1., Single Decree, as amended by Decree 2673, dated 2012.

[111] Article 2.34.1.1., Single Decree as amended by Decree 2673, dated 2012.

SFC thinks failure to authorize insurance entities to use banking correspondents to sell insurance products and that this option is not even tacitly included in banking correspondents' authorizations also prevents banking correspondence belonging to other networks to sell insurance products issued by insurance companies that belong to the network. However, it will be noticed that some industry participants do not share SFC's interpretation because, in their opinion, using banking correspondents from the network they belong to, is not explicitly defined by Article 1.h. of External Letter 029 dated 2013, which clearly determines credit establishments can offer the following services through bank correspondents:

> "*Promotion and management of transactions performed by supervised entities using their branch network to engage in activities defined by Article 93 of the Financial System Organic Bylaws and Article 5 under Law 389, dated 1997.*"

Against this background, some entities think that at present bank correspondents may "commercialize" insurance products if they belong to the credit establishment network used by the insurance entity, in which case all regulations applicable to bank correspondents will also apply.

Regulations do not authorize other entities to sell insurance in Colombia. Alternative distribution channels have penetrated markets through strategic partnerships that provide a framework for selling collective or group insurance products. "Commercialization" of microinsurance products in Colombia takes place through alternative distribution channels, including supermarkets or utilities, but there is no regulatory basis to regard those channels as "mass commercialization" channels. In practice, these new distribution channels act as collective policy takers, whose clients are the insured/beneficiary policy holders, and also enter into strategic partnerships with such entities, as they are less expensive (Zuluaga 2010). Regarding utilities, as we will see below, they are authorized to operate as transaction platforms but not to commercialize insurance products. It is in this context that regulations applicable to collective insurance become relevant. SFC has insisted on the importance of shedding the way in which such entities will become market players.[112] Likewise, insurance companies and FASECOLDA are presently reviewing the best way to regulate such mass commercialization channels.

Group or collective insurance are partially regulated in Colombia. Group insurances where credit establishments are the insurance-takers are more heavily regulated. The Single Decree, as well as more recently Decree 673 (2014) set forth the requirements to be met by credit establishments to engage in collective policy takers on behalf of their clients. These rules underscore the importance of insurance access to information when choosing an insured, the need to deliver individual certificates avoiding premium overcharges to policy holders, and others.[113] It is noteworthy the most recent grievances and complaints reports against this industry filed with SFC showed the product reporting the highest number of complaints and grievances before life insurance companies was the group life insurance product, totaling 53% of complaints. (SFC 2013).

5.3.3 Transaction platforms

Using bank correspondents for premium collection and indemnity reimbursement is possible. Taking into account that credit establishments can engage in collection and payment transfer transactions through bank correspondents, insurance entities may also use those channels for collecting premiums and paying compensation, though this will require a previous partnership with the credit establishment. Expanding bank correspondents' capacities is in the interest of stronger transactional capabilities of financial inclusion.

[112] Superintendencia Financiera, Concepto 2011055963-001, September 12, 2011.
[113] Articles 2.36.2.1.1. y 2.36.2.1.2. Single Decree; Article.6.3.7 Legal Basic Letter; Article.36.2.2.1. Single Decree, Decree 673, dated 2014.

Regulations foresee the option for correspondents to create correspondents network, which may appear before clients through network managers and partnerships with enterprises already having built a contact points network.

Utilities are authorized to collect payment for other types of services and, consequently, they are also authorized to collect insurance premiums. This transactional platform was authorized by Decree 828, dated 2007, which emphasized the importance of insuring consumers have effectively authorized such service and, consequently, the corresponding payment.

Important progress has been made in the last two years to ensure a regulatory framework is in place to expand the use of mobile telephony as a transactional platform. Colombia has created friendly products that can be managed through mobile banking, including "E-deposits,"[114] E-savings accounts (Cuentas de Ahorro Electrónico, CAE)[115] and streamlined savings accounts paperwork.[116] In addition, specific regulations were enacted to move the mobile banking agenda. It is worthwhile underscoring in this respect, External Letter 042, dated 2012, issued by SFC that defines mobile banking as an "*e-banking channel where mobile service is used for engaging in transactions and counting on a telephone line linked to that service. Services provided through mobile devices and using Web browsers are regarded as Internet banking.*" This letter likewise set forth the safety and quality conditions for using such cannel. The convergence of (i) friendly products to be managed by mobile banking; (ii) bank correspondents promotion; and (ii) regulation of mobile banking are all facilitating components to accomplish such objectives (Fernández de Lis , et al. 2014). In addition to the major financial inclusion draft law, currently debated in Congress, and in view of the possible establishment of Deposits and Electronic Payments Specialized Companies (Sociedades Especializadas en Depósitos y Pagos Electrónicos), other entities, including CRC, have also made progress along this way. Last March 2014, CRC issued a decision clarifying the rules of access to networks that provide mobile banking services.[117]

The tax message is however contradictory: there are still in place tax regulations that discourage electronic payments and using banking accounts for these types of payments. However, certain tax rules have been enacted to prompt use of financial services. In 1998, the contribution on Financial Taxes (Gravamen a los Impuestos Financieros - GMF) was enacted to encourage usage of payment tools (4 per thousand). Despite that presently much emphasis has been paid on promoting financial services, this regulation has remained alive.[118] However, Law 1607 (2012) increased withholding at the source of transactions carried out with plastic from 10% to 15%. However, the same regulation has introduced certain flexibilities to promote using financial services, including, firstly, GMH exemptions to subsidies, withdrawals, or use of funds from CA and DE; and, secondly, reimbursed two VAT percent points on the purchase of goods and services using mobile banking.

5.3.4 Products

No prior authorization is required for the product, although prior license for operations by type of insurance and policy model is required. In Colombia, the SFC is not required to issue its approval for insurance products offered by insurance companies. However, such entities must require authorization for the types of insurance

[114] Decree 4687 de 2011, added Article 2.1.15.2. under Single Decree.
[115] Articles 2.25.1.1.1. to 2.25.1.1.4. under Single Decree, External Letters 007 and 008, 2013 SFC
[116] External Letter 053, 2009 SFC.
[117] This decision details issues including the maximum charges applied to the financial sector by SMS, the obligation for mobile operators to open access to USSD technology (unstructured supplementary data services), forbids charging users of the financial system for services already paid by banks, and others.
[118] At present, a draft law is debated to suppress Colombia's GMF (Draft Law 193, dated 2012).

they may want to provide, through a technical note and by including appropriate clauses in the policies, which will be filed with SFC. Since microinsurance products are sold within the traditional industry insurance types, their prior approval is not required. (For companies already authorized within those specific types of insurance), which significantly reduces the cost of their development.[119]

Previously insurance entities were authorized to offer burial insurance products the compensation for which could be also provided either directly in kind or in cash. At present, they can only offer burial insurance products for which indemnities will be paid in cash. This situation is against the consumer's interest. The reason for this new landscape is the historical debate between insurance companies and burial service providers, which highlighted the fact the latter were neither regulated nor supervised; did not meet all prudential and market conduct requirements requested from insurers and, however, were free to offer burial insurance products. The regulator decided to restrict the offering of burial insurance products to insurance companies, and the funerary services to burial service provider companies. Against this background, it was realized that "funerary services" were not an insurance activity, "*if through them a person or a group of persons acquires the right to receive burial services in kind (…)*"[120]. Consequently, burial service provider companies offer in practice "burial insurance in kind," although these entities are neither regulated nor supervised, a circumstance that has impaired healthy competition and consumer protection. At present, burial insurance consumers are forced to pay directly for the cost of funerals, thus required to take debt and, subsequently, request for cash reimbursement from the insurance company.

Tools have already been and continue to be implemented to encourage using farm insurance nationwide. Since 1993, the law has established the agricultural insurance in Colombia, for which the State provides a premium payment subsidy. Recently, several regulations,[121] including the national development plan have sought to further encourage this type of insurance. In addition to the PPP discussed in the offering chapter introduced together with Banco Agrario, the 2009 financial report included a number of interesting encouragements. Firstly, the law changed the insurance definition that include biological risks and livestock activities; it also mentions that for loans insured with this type of farm insurance, the value of the premium paid by the producer may be discounted the guarantee service commission provided by the Fondo Agropecuario de Garantías (FAG).[122] It further sets forth the subsidy for the farm insurance premium awarded by Law 69 (1993) could be financed against the Agro-Income Insurance Program (Agro Ingreso Seguro - AIS). It also allowed foreign insurance companies to provide farm insurance either directly or through their authorized intermediaries. For this purpose, SFC recently established the registry of insurance companies and intermediaries dealing with foreign farm insurance (Registro de Entidades Aseguradoras e Intermediarios de Seguro Agropecuario del Exterior, RAISAX).[123] In 2012, CNSA clearly set forth the amounts for the Premium subsidy for certain classes of producers, emphasizing that small farm owners holding a Finagro credit would get an 80% subsidy.[124] Likewise, it cut the VAT tax rate from 16% to 5%. At present, FASECOLDA and other entities provide support to the Farm Insurance Comprehensive Development Project (FASECOLDA 2013). It is worthwhile underscoring Colombian regulations require farming and economics students to provide training and counseling to rural populations.[125]

[119] Article 1047 C.Co and1.2.3.1. Legal Basic Letter (CBJ).
[120] Article 111, under EOSF.
[121] For instance, Decision 2, 2012 by National Farm Insurance Commission (CNSA).
[122] Provided FAG is the insurance policy beneficiary.
[123] External Letter 035, 2011.
[124] Decision 28 from the Ministry of Agriculture and Rural Development (MADR) sets forth the subsidized crops and the maximum values and the insurance policy maximum hectare values (USD 7,600 for short cycles and USD 10,800 for long cycles).
[125] Article 66, Law 115, 1994.

Microinsurance is promoted through BEPS regulations in Colombia. BEPSs are regulated in Colombia, through Article 48 of the 1991 Constitution that opens the possibility of providing money benefits for an amount equivalent to the minimum pension payments (BEPSs).[126] Decree 604 (2013) includes two types of incentives: one on a regular basis and another for specific cases. The former implies a financial contribution from the State to reward savings. The second is a subsidy that opens access to microinsurance products by providing disability and death coverage through insurance marketed in Colombia.[127] To receive such insurance, the beneficiary must make at least six contributions or payments equivalent to six current legal daily minimum wages during the prior calendar year (SMDLV).

Life insurance is VAT-exempt.

5.3.5 Supply, underwriting, and management

This section reviews the regulatory impacts on the supply, sale, underwriting, and management of insurance products.

1. ***Public offering***

Regulations focus on insuring consumers can make an informed decision and make appropriate use of insurance. In this regard, regulations emphasize the importance for consumers to understand and receive required insurance product information to decide whether they actually need the product, are aware of its conditions, and the authorized distribution channels, as well as applicable transactional platforms, costs involved, their rights and duties, the mechanisms and periods through and which they may be used, as well as available mechanisms to file complaints and grievances, and result conflicts.[128] This is even more evident if one takes into account most grievances and complaints filed before the policy holder ombudsman relate to inadequate information dissemination among consumers (Díaz and Pinzón 2011) (Camargo, Protection of the Microinsurance Consumer: Confronting the Impact of Poverty on Contractual Relationships 2012). This situation is also evident from a review of complaints and grievances statistics for the second quarter of 2013 filed before SFC, which show 47% of complaints relating to life insurance products related to "*inappropriate information when establishing the relationship,*" followed by inadequate care of financial consumers (32%). As regards general insurance, the corresponding percent figures reached 48% and 36%, respectively (SFC 2013). To comply with standards for this process, the following principles must be enforced: due diligence, transparency, and financial education.[129] These components materialize through the following:

- *Financial education is regarded as both a principle and a right and, consequently, an obligation of supervised entities.[130]* Because of poor education among the microinsurance target population, these regulations become even more relevant. Regulations allow insurance entities to design their programs

[126] Legislative 01, 2005, Article 84 under the 2009 Financial Reform Law' National Development Plan 2010-2014, CONPES 156, 2012, and Decree 604 , 2013.
[127] Article 9 under Decree 604, 2013, as amended by Article 2, under Decree 2983, 2013.
[128] Articles 3c, 7ca, and 7f RPCF; Articles 3b and 4b External Letter SFC 015/2010; Article 9.1. External Letter 038/2010; Article 9.3., External Letter 038, 2011.
[129] Article 97, EOSF. Articles 3 and 7, RPCF.
[130] SFC Concept 2011066771-001, September 20, 2011, p. 1. Article 3f RPCF; Article 5d RPCF; Article 6 RPCF; Articles 7t and 8i RPCF; Article 23o RPCF; Article 24s RPCF. Articles 1.3. and 1.11., SCP

independently or through their associations, organizations, or any other entities.[131] SFC has defined financial education bearing in mind that so far, there was no such component in education plans and programs. It also determined such training should be provided through appropriate channels, must include information about the Consumer Care System (Sistema de Atención al Consumidor, SAC) and should include all relevant information,[132] using appropriate learning methodologies that suit the entire population's needs.[133]. In addition, it mentioned the financial consumer protection department at SFC shall engage in efforts to encourage financial education. These principles are in line with SFC's consideration PPPs are important in developing financial education programs. However, advertising shall not be taken for financial education (Zimmerman, Magnoni and Camargo 2013).

- *Consumers have the right to receive information relating to the products offered before signing an insurance contract or adhering an insurance group.* In addition to financial education initiatives, insurance entities shall directly or through their intermediaries and regulated commercialization channels ensure information is disseminated about their product offerings.[134] In particular RPCF, the Consumer Protection Statute, SFC through its External Letters, all regulate the type of information that should be disseminated as well as the way in which it shall be disseminated among consumers. However, all regulations applicable to insurance activities underscore the importance of insurance consumers giving their free and informed consent. So, a clear rule is set forth about the way products may be marketed,[135] as well as their contents, form, language to be used in marketing tools, as well as in contract documents, and in all other instruments aimed at providing information to consumers.[136] Standardized policy forms must be published by insurance companies on their websites.[137]

- *The anticipated supply of contract forms to policy takers is required as a mechanism to ensure their informed consent; however, this prior delivery involves certain expenses and is not always adequate to meet the microinsurance product consumer*. Article 37, under EPC, by regulating contracts, mentions that in the specific case of insurance contracts "*the insured will deliver the articles of the contract to the policy taker in advance, and explain the contents of the coverage provided, as well as related exclusions and guarantees.*"

- *The right to receive appropriate information spans the entire term of the insurance contract.[138]* Consequently, insurance entities are mandated not only to deliver the contract documents when signing the agreement, but also to ensure the consumer is appropriately informed throughout the entire contract term.

[131] Article 5.7. External Letter SFC 015/2010.
[132] Articles 3f and 5d RPCF; Articles 4a and 5.7; External Letter SFC 015/2010 and Article 11.2.1.4.11., Single Decree.
[133] According to SFC, "*each entity will determine the contents of their education plans and programs and actively disseminate them by establishing their target audiences, by type of channel, amount of material to be used, frequency, geographic jurisdiction, media, and others, based on its own diagnosis, services, and analyses.*". SFC, Concept 2011035724-011, June 13, 2011, p. 1.
[134] Article 5ª, RPCF; Article 7c, RPCF; Article 97, EOSF; Articles 3b and 4b; External Letter SFC 015/2010; Article 9.1.; External Letter 038/2010.
[135] Article 326, EOSF; External Letter SFC 015/2007; External Letter SFC 050/2009; Article 3.1.4. and Title V, EPC.
[136] In particular, Articles 3, 5, 7, 9, and 10, RPCF; Articles 3 and 4 of External Letter SFC 015/2010; Article 9 of External Letter SFC 038/2011; Article 3 and chapter II, title VII,l EPC; Articles 100 and 184, EOSF; and Article 1.2.1. CBJ.
[137] Para. 2 Article 9, RPCF and 5.8. External Letter 015/2010; Article 9 External Letter SFC 038/2011.
[138] Article 97, EOSF.

- *The identity and quality of participants in product offering and distribution should be clearly explained.* So as to be able to identify the insured, the commercialization channels, and the participating transactional platforms.

- *The obligation to inform is also required from the insurance taker*. Should the insurance taker make inaccurate statements or fails to state the condition of the risk taken, the contract will be declared null and void, or the premium and insured amount will be reduced proportionately.[139] Consequently, it is fundamental for the policy taker to be aware of such obligations.

- *SFC will publish the quotations for the mass insurance offerings in major national and regional dailies*. Since 2006, SFC publishes every month the financial services and products rates, including savings accounts, credit cards, debit cards, and fees for using automated tellers and checking accounts, so that financial consumers may compare the rates charged by various financial entities.

- *Regulations have also established the Single Insurance Registry so the beneficiaries will be aware of the types of insurance products where they are beneficiaries.* Single Insurance Registry (Registro Único de Seguros, RUS) provides information about individual life, collective life, voluntary car insurance, and mandatory shared goods insurance products. This registry is open to the public at FASECOLDA's website.[140] The reason for creating this registry is that certain insurance-takers, insurers, or beneficiaries may not be aware of certain mandatory insurance they must hire.

2. *Sell and signing*

Regulations do not impose excessive requirements that might hamper microinsurance products' sales and underwriting.

- *Remote insurance contract signing is allowed*. The only requisite is the prior agreement of the parties by means of electronic tools, telephone calls, and others. In these cases, the five-day right of withdrawal after signing the contract will apply, as established by article 47 under EPC. However, because in the understanding the insurance contract becomes executable by the agreement of the parties, so that coverage is provided immediately, such right of withdrawal would be impossible to enforce. Nevertheless, Colombian regulations recognize the right to cancel the insurance contract at any time.
- *Exceptions to customer's information requirements to prevent asset laundering for certain insurance products would favor microinsurance. However, industry holds it is important to introduce a more flexible regime*. External Letter 026 (2008) of SFC sets forth several exceptions to the **filling out of the customer information forms for certain types of products, including insurance:** (i) social security; (ii) mass marketing or bank insurance products, provided premiums are paid through direct withdrawals from savings, current or credit card accounts, and the client has explicitly authorized those debits; (iii) insurance taken by natural or juridical persons on behalf and for the benefit of their workers, based on a work contract or working relationship, and in what regards the policy taker and beneficiaries' information; (iv) burial; (v) insurance hired by natural or juridical persons from the same insurance company for an insured value equal to or below 135 minimum wages, and where the bimonthly premium payment is equal to or below one twelfth of one minimum monthly wage. Taking into account that most microinsurance products

[139] Article 1058, C.Co.
[140] Article 47, RPCF, Decrees 3680/09 and 2775/10. (Article 78, RPCF, Decrees 3680/09 and 2775/10 – Constitutional Tribunal C-640/10)

in the market meet those requisites, such exceptions will favor microinsurance. However, when the complaint is paid, those forms must be executed, a fact that was underscored as an impediment for microinsurance products. Likewise, it was underscored the amount set under point (v) above is too low.

- *The policy must be delivered to the policy taker within 15 days of contract signing. For collective insurance policies, individual certificates must be delivered to the insured individuals.*
- *Premiums must be paid within one month after receiving the policy, unless otherwise agreed. No constraints are imposed on the payment of premiums.* Failure to pay timely results in contract termination.[141]

Regulations forbid abusive clauses and practices. If abusive clauses are included, they must be removed and they must not be used against the consumer. Supervised entities must avoid any type of conduct that may result in contract abuse and may lead to "*abuse of dominant position*" by the insurer.[142] At present, the insured ombudsman within each company must identify such clauses.[143] It is worthwhile underscoring, the contract's general conditions will be interpreted to the best interest of the consumer.[144] Tied sales are regarded as abusive practices.

Regulations emphasize the importance of protecting consumer data and transactions. Colombia requires the explicit consumers' authorization about the storage and use of their personal details. Colombia has availed itself with a robust regulatory framework for data protection, grounded on the constitutional recognition of the right to privacy, and the right to change personal information included in public and private databases. In this respect, Law 1582, 2012 (or the new "Habeas Data" Law) sets forth the mechanisms to ensure that protection. On the one hand, several tools have been incorporated to ensure the data and funding within the financial sector. Consequently, supervised entities must keep proof of payments made by consumers,[145] establish minimum security, quality, responsibility, and confidentiality conditions for transactions through various channels (collectors, call-centers, mobile banking, Internet, etc.), and adopt the tools and control required to protect the confidentiality of consumer information.[146] The Habeas Data Law requires all entities to get their clients' explicit authorization to store and use their personal details. Consequently, Decree 1377 (2013) establishes that data collected before the decree was enacted, where it may not be possible to ask each individual for their consent about the way to utilize their personal data, alternative mechanisms may be put in place such as publications in national dailies, websites, and others. However, the requirement remains valid for new clients.

[141] Article 1066 C.Co.
[142] Article 7e, RPCF.
[143] Articles 11 and 12, RPCF; External Letter 039/2011 and 042/2011. Chapter III, Title III, EPC.
[144] Article 34, EPC.
[145] (Article 103, EOSF; Article7g, RPCF)
[146] Article 7i, RPCF; Article 7q, RPCF; Articles 2.14 and 3.1; External Letter SFC 042/2012.

3. *Administration*

Beneficiaries must report the event within three days and demonstrate the loss incurred. The period may be extended but nor reduced. This is to the advantage of microinsurance because the three day terms is too short. Consumer initiatives regarding the insurance contract are subject to a prescription two years ordinary and 5 years exceptional term.[147]

The insurer may not require additional formalities other than those prescribed by law to accept the claim and the beneficiary's right to compensation. Systematic practices to delay compensation may result in cancelling of the insurer's license.[148]Nor can they request information they already have.[149]

The insurer must pay indemnification within one month of the loss and right to receive compensation has been demonstrated. The policy will become executable within one month if the insurer raises any objection to it.[150] If no payments are made within the established term, the insurer will pay interest and, if the consumer undergoes any loss caused by such delay, the consumer has the right to compensation for loss and damage.[151] Data provided by FASECOLDA shows complaints are addressed by insurance companies in Colombia generally within one month. However, this one-month term for indemnification payments is excessive for microinsurance products. Firstly, the target population requires an immediate payment of indemnification or their financial and living conditions may be jeopardized. This will be the consequence of their taking loans with money lenders at high interest rates, will be forced to sell their assets, or send their children to work, with an adverse impact on the latter's schooling. Secondly, delayed payment of indemnification will strengthen the target population's negative perception of insurance, and reduce their trust in insurance products. Consequently, delays in paying indemnification curtail the value of such products for microinsurance consumers.

5.3.5.1 Grievance management and conflict resolution

Financial consumers may resort to various tools to file their grievances and complaints, including the Consumer Care System (SAC), SFC's Consumer Care Department, and the Financial Consumer Ombudsman (DCF).[152]

- *RPCF created SAC to ensure appropriate management of financial consumers' grievances and complaints*. SAC is a comprehensive tool so supervised entities will adopt appropriate financial consumer care and respect practices. SAC must provide information about requisites, formalities, places, and terms to file grievances and complaints before supervised entities. It also provides for having recourse to DCF, its functions, and procedures, and to use all information in this respect.[153] Supervised entities must avail themselves with all the human and technical resources their branches needs so consumers get

[147] Article 1075, C.Co and 185 EOSF; Article 1081 C.Co.
[148] Article 100.3 EOSF.
[149] 7s RPCF.
[150] Article 1053 C.Co
[151] Article 1077 C.Co. and Article 1080 C.Co.
[152] Article 5e, RPCF; Article 11.2.1.4.11; Decree 2555/2010.
[153] External Letter SFC 038/2011 and Article 5.2.; External Letter SFC 015/2010

appropriate care when filing complaints and grievances.[154] When looking into consumers' grievances and complaints, entities must act prudently, reply and a clear, sufficient, and timely manner, and use the procedures established by SAC for such purposes.[155] Generally SAC may be reached at insurance entities' websites.

- *Each insurance entity must retain the services of a DFC who will act independently and autonomously, and who may represent more than one insurance entity.* DFCs must be registered and have at least 5 years professional experience, industry specialization, and demonstrable probity. The DFF will answer to the consumers' grievances and complaints but may also act as mediator or conciliator,[156] for which he/she will enforce the procedures set forth in the corresponding regulations.[157] Likewise, he/she may submit proposals for legal reforms and issue recommendations for supervised entities. The Defender's decision may be binding, which will depend on those organizations internal rules. However, the DFC may not decide on damages, penalties, or indemnifications. Concern was shown about the DFC's impartiality to the extent his/her compensation is paid by the insurance entity.

- *SFC consolidates statistics and provides analysis of the way insurance companies, SFC and DCF, manage consumers' grievances and complaints. These reports are in the public domain.* They can be visited in the website SFC publishes reports, including its analysis on the products with the highest number of grievances, the respective companies, and the way the complaint was resolved. The latest complaint statistical report published in 2013 showed the number of complaints against the insurance entity increased by 171% from 2010 to 2013. The most frequent complaints in 2013 regarding life insurance included inadequate information at the time of establishing the contract (44%), inadequate service to financial consumers (33%), and contract-related issues (10%). The life insurance products showing the highest number of complaints are group life (53%), occupational hazards (21%), individual life (13%), health insurance (6%), and personal accident policies (3%). The insurance companies showing the highest number of complaints in the life department were (40.41%) distantly followed by Suramericana (14.36%). In the general insurance department, the most frequent complaints included the inadequate information provided at the time of contracting (40%), poor financial consumer service (36%), and contract-related issues (11%). By type of product, the largest number of complaints was filed concerning car insurance (37%), group life insurance (10%), personal accidents (7%), and theft (7%). Insurance companies receiving the largest number of complaints are the same as in the life insurance department, with 48% and 17%, respectively (SFC 2013).

Consumers may resolve their conflicts with insurance companies through DFC, la SFC, and national courts.

- *Since 2009, SFC has jurisdiction to decide in cases of disputes between financial consumers and supervised entities*. This issue is of great importance to protect microinsurance consumers, because it typically focuses on minor grievances (SFC y BdO, 2014). In 2013, 852 complaints were filed, of which 688 were for very small amounts (under 40 minimum monthly wages) and 13% related to insurance contracts

[154] Article 7l, RPCF.
[155] Article 5.2.; External Letter SFC 015/2010.
[156] A law degree and conciliator-certification are required. Decree 3756/2007 (Article 2; Decree 3993/2010 and Law 640/2001). Conciliation agreements have adjudged issue-status.
[157] Articles 13-20 RPCF; Article 2.34.2.1.5., Single Decree; Article 18, RPCF; External Letter SFC 015/2010; Decree 3993/2010; Articles 2.34.2.1. to 2.34.2.1.9., Single Decree.

themselves.[158] The SFC's decisions are final and binding.[159] The proceeding is quick and effective and, in particular, SFC has put in place certain technologies that insure the presence and virtual interaction of and with the consumer.

- *Colombian courts recognize long list of court proceedings than can be enforced by microinsurance consumers*. For instance, actions based on failure to comply with insurance contract conditions, on which ordinary tribunals have competence, or constitutional actions such as petitions, people's demands, or injunctions.

- *Regulations establish consumer protection bodies such as consumer protection associations can provide counsel to consumers in these types of proceedings*. The Colombian Consumer Federation plays a very important role and interacts closely with poor people through their "Tal Cual" and "Consumer's Newsletter" programs.

- *Law 1086 (2006) provides senior year law students must give legal counsel in legal assistance offices set up to serve layers 1, 2 and 3*. These offices must also provide free advice to consumer leagues.

6 Findings

6.1 Context

1. **Colombia is particularly exposed to natural disasters, even more so given climate change phenomena. This situation demonstrates the need to put in place risk transfer tools for this kinds of events available to layers 1, 2 and 3.**
2. **The government has grown Colombian economy exponentially and reduced poverty and inequality,** however there is still a long way to go and the Colombian government is aware of the importance of PPPs in accomplishing such objective**.**
3. **Poverty persists significantly in rural areas and particular among displaced, afro-Colombian and indigenous communities.** These populations require efficient risk management strategies to face the hazards they are particularly exposed to. Likewise, such risk management strategies may be provided within government processes to support them, as is the case of land ownership devolution processes.
4. **Illiteracy and well as the illiteracy gap between rural and urban areas are essential factors to be accounted for when developing Colombian microinsurance.**
5. **Women play an essential role in the economy and require risk management tools suiting their specific needs.**
6. **Despite falling unemployment, informality subsists, leading to multiple deprivations and exposure to given risks that must be taken into account when designing microinsurance products.**
7. **Most Colombians live in urban areas and they are exposed to other risks than rural people and consequently adjustment products meeting their needs.**

[158] SFC's jurisdictional powers are limited to issues concerning contract execution and compliance, including insurance contracts.
[159] Articles 56.3., 57-58, EPC; Article 11.2.1.4.14.1., Decree 2555/2010.

8. **Colombia's cooperative sector is significant and includes a large portion of microinsurance target population, including people in layers 1, 2 and 3, as well as owners of small and medium size businesses and industries.**
9. **Colombia has put in place various strategies to enhance access to financial services, for layers 1, 2 and 3. Points of contacts and traveler advisors are particularly interesting as they can provide transactional platforms for microinsurance products.**
10. **Mobile banking is becoming the new catalytic agent of financial inclusion and may play an important role in microinsurance development.**
11. **PCs and mobile banking are increasingly used to pass on benefits to the country's social program beneficiaries who are presently provided and will continue to be offered microinsurance products.**
12. **Despite recent progress regarding access, a significant gap exists** regarding financial system coverage in urban and rural areas throughout the nation, this gap is even wider regarding insurance compared to other financial services. Also there is much to be done to improve use of financial products.

6.2 Supply

Insurance industry

1. **The Colombian insurance market has expanded in recent years. Using various commercialization channels has driven growth although penetration rates remain low and products are not too diversified. This trend is also apparent in the microinsurance market. Likely, growth is more directly a consequence of expanding distribution channels than with innovation and diversification of coverage available in markets**.
2. **Cross border insurance trade has been recently allowed so local residents can now purchase foreign policies.** This new option has enhanced competition in the microinsurance market as well, but also **may result in consumer protection issues for those products**.
3. **The Ministry of Finance is allowed to underwrite foreign insurance policies to cover natural disaster risks.** This new feature may result a beneficial impact on microinsurance target populationswhen wishing to provide coverage against natural disasters through insurance underwritten abroad by the Ministry of Finance.

Microinsurance market

1. **The Colombian microinsurance market is comprised of various classes of insurance products, all of which must be taken into account because people's perceptions of one type of insurance will indiscriminately impact the entire microinsurance market universe.** These classes include: (i) FASECOLDA-rated microinsurance products (determining whether certain insurance products may or may not be classified as microinsurance); (ii) low cost mass insurance; (iii) mandatory insurance; (iv) products offered through PPPs; and (v) informal insurance.

- ***FASECOLDA-defined microinsurance and mass insurance***

1. **The Colombian insurance industry led by FASECOLDA, has been at the full front of access to insurance nationwide thanks to microinsurance products.**

2. **CM has been essential in such promotion. The CM microinsurance market report was crucial in following up access.** However, this report lacks accuracy that should be corrected to prevent arriving at erroneous conclusions about the microinsurance market. These inaccuracies are a consequence of (i) reports that are not always microinsurance but rather low cost insurance; (ii) certain insurance companies providing microinsurance fail to report their data; (iii) only 17 of the 24 CM participants send data; and (iv) no detailed data is available by social segment.
3. **FASECOLDA has made efforts to adopt a microinsurance definition including both qualitative and quantitative elements, while ensuring that products reported as microinsurance effectively meet those criteria. However, there exist several opinions about what microinsurance products are as is reflected in the reports themselves.** Colombian regulations do not include a definition of "microinsurance" per se. Information about this industry is built upon data provided by FASECOLDA, using the definition adopted by the insurance industry association and its members. Such lack of clear definition has led to various visions, approaches and models for microinsurance emerging within the insurance industry. Principally, data definition and collection should allow microinsurance and local mass insurance to be monitored following the same approach.
4. **The microinsurance market development path followed by FASECOLDA cannot be assessed only through CM microinsurance market report because of the above mentioned issues.** FASECOLDA figures show the number of risks insured through microinsurance to December 2013 reached approximately6.09 million or 4.1% of insurance companies' issued premiums portfolio, and would reflect a 16.1% penetration rate of the microinsurance target population, fixed at 37.8 million persons. These figures also reflect a poorly diversified market, focusing on personal accident and group life products. Offering of impact products, such as health microinsurance, is still limited.
5. **The insurance industry identified 7 challenges to further developing the microinsurance market, as follows**: (i) access to the population; (ii) premium collection; (iii) renewal and persistence; (iv) intermediary and channel's commissions; (v) intermediary training; (vi) product design; and (vii) streamlined asset laundering regulatory procedures.

- ***PPPs-related products promoted by the Government of Colombia***

1. **PPP has emphasized the importance of separating microinsurance from conventional low cost insurance, affordable to low income people –**or low cost mass insurance-. They regard designing insurance products targeting the needs and peculiarities of the most vulnerable population as an essential requirement.
2. **PPPs are an important tool to bring the public and private sector closer and building stronger learning platforms.** Some major pilot projects have been instrumental in this regard and still show significant potential to expand the insurance companies gain a better understanding of low income households' conditions, their needs and demand for insurance.
3. **Experience and lessons learned by members of the supply chain is still restricted. However, increased efforts should be aimed at spreading such lessons.**
4. **Entities including the BANCOLDEX development bank, have identified the regulatory constraints to insurance commercialization as a major challenge for microinsurance growth initiatives.**
5. **The Government of Colombia has undertaken a number of social programs and initiatives that include a significant captive demand for microinsurance. Some of these programs have "unlocked" to the private sector and new channels are opened to industry to offer insurance to such captive demand market including micro business owners, micro companies, beneficiaries of social programs, small land owners, etc.** although industry has been shy in joining these initiatives it is clear we are facing a learning process with a significant potential.

- ***Transactional channels and platforms***

1. **Colombia is a world leader in introducing mass distribution alternative channels. However, much remains to be done with respect to channel showing capillarity to layers 1, 2 and 3, specifically.** This is a very positive component of the agenda to encourage access to insurance, since those channels include a large portion of the population, including layers 1, 2 and 3, but are not necessarily the most appropriate for microinsurance dissemination, since they do not specifically target those layers. Such alternatives of mass distribution channels are principally the utilities, credit establishments operating in the bank insurance sector, and department stores. Over 50% of policy holders have access to insurance through utilities, while traditional channels for microinsurance products, such as cooperatives and MFI account only for 17% of policy holders.
2. **The solidarity sector is an interesting channel that is gaining prominence in Colombia and plays an important role among layers 1, 2 and 3.** This channel is particularly relevant for microinsurance, together with clearing chambers, which, differently from the solidarity sector, remain to be explored.
3. **Generally, alternative mass distribution channels are expensive and are used in "triangular" relationships involving the insurer, to facilitate direct sales, and /or a professional intermediary whether a broker, agent or agency-**. The most peculiar characteristic of mass channels is their high distribution cost. This is directly related to the quasi monopolistic decisions and weak negotiation ability of companies. To this, we must add the cost incurred by involving a professional middleman in this relationship. In all cases, the end users are the main victims as they are transferred the above cost, increasing their premiums and reducing affordability.
4. **Some existing channels and transactional platforms are underutilized.** Some channels and transactional platforms that could reach households in layers 1, 2 and 3 and expand Colombians' access to insurers are not presently utilized or, if they are, are not sufficiently used. The recommendations section in this diagnosis provide some ideas for innovating and deepening in this channels. The underutilized channels and transactional platforms include cooperatives, family compensation chambers, the remittances systems, BANCOLDEX MFI network, banks with access to layers 1, 2 and 3, and bank correspondence.
5. **Certain channels are not regulated and supervised, are not always properly trained, nor is there clarity about their responsibilities concerning transparent relations with consumers.**

- ***Value of microinsurance products offered in Colombia***

1. **Much progress needs to be made in designing microinsurance products creating value for their target population**:

   ✓ Colombian insurance companies including those with a strong microinsurance component rarely study their demand and thus are prevented from learning about low income households' needs and preferences and adapt their offerings to those needs.

- ✓ Many "microinsurance" policies under review contain numerous exclusions. They offered through complex and cumbersome forms and certificates for product purchasing and filing complaints in case of damage. The terms for paying indemnity are not appropriate for microinsurance.
- ✓ Designing microinsurance products in Colombia does not always assure protection against the risk faced by layers 1, 2 and 3. The fact these clients have access to insurance and are covered does not mean they have acquired adequate coverage, nor that they understand the terms of the insurance products they acquire and will therefore use them. This creates a barrier for expanding this industry but also because it poses certain questions about consumer protection as sometimes the latter are no in a position to correctly understand what they are purchasing, what are their rights with respect to the purchased product and how they can use it.
- ✓ Microinsurance products offer limited protection to clients. Claims indicators for microinsurance products are particularly low, regardless of the type of risk coverage. On average, the claims index falls below 20%. This may be accounted for by the high cost of distribution channels which increase expenses incurred or because the product does not create value for the policy holder because of a low coverage to price ratio. This last assertion is further confirmed by low prevailing renewal rates.

- ***Development of the Colombian microinsurance market***

The Colombian microinsurance market is growing and diversifying. This characteristic may be due to the strong supply by the formal insurance industry which resorts to both alternative and traditional channels to distribute its products but which has only limited use to channels that may show strong potential to layers 1, 2 and 3, as well as by transactional platforms that operate independently from their channels. As relates the products themselves, they are mostly little diversified and do not always create real value to their end consumers.

6.3 Demand

- ***Target population's perception and risk exposure***

1. **The risks the target population is more concerned about death, disease, unemployment, accident, loss of assets and violence.** However, the most popular microinsurance among the resource poor people are the group life and personal accidents policies (93%) and individual life (14%). Consequently, there exit still interesting products to be proposed.
2. **There exists latent demand for products covering natural disasters but supply of this type of product is limited.** Moreover, the target population is not familiar with such products.
3. **The low resource target population is most interested in burial and life insurance products.**
4. **Our data shows urban and rural people experience different types of risks and also put in place different strategies to mitigate them. This finding once again reveals the need to know such target populations deeply as well as their peculiarities and the main difficulties they face when designing insurance products**.

- ***Risk management mechanisms***

1. **Insurance are not the most frequent way poor resource people manage unforeseen risks or unexpected expenses.** FG participants will rather get a loan or credit, typically from a family or an informal lender ("drop by drop loan").
2. **Insurance are an opportunity**. Information gathered as the FGs and other surveys shows loans are typically used as a risk mitigation strategy. This strategy may have adverse effects because it can increase debt overhang. Therefore, insurance open an opportunity to provide this population a cheaper risk mitigation strategy that will also contribute to fight over-indebtedness.
3. **There exists a latent demand for tangible products that resource poor people understand as a source of added value.** FG participants repeatedly said the funerary insurance is not perceived as anexpense because they understand well the service they will get for the payments they make. This perception is further strengthened by the low value of premium paid compared to the benefits received.

- ***Factors impacting insurance and microinsurance demand***

1. **The idea of "insurance" as a way to face and mitigate daily life risks is well received by low income people**. However, insurance if oftentimes regarded as an unnecessary expense, i.e. both visions strongly contradict each other.
2. **There is no evidence the target population has the ability to differentiate microinsurance from other types of insurance.**
3. **Poor financial education is still one of the most important barriers to further introduce insurance and microinsurance among the low income segments of the Colombian population.** Information is available but it is not designed to target such social segments, so the latter cannot actually evaluate the pertinence of the offered service nor differentiate which may best meet their needs. In turn, this is related to the fact the insurance industry strongly advertises their products in the mass media but such wide advertising offering oftentimes create confusion because the target population lacks the criteria to choose the best option.
4. **Cost is in itself one of the main inhibitors for insurance purchasing.** This characteristic points to the fact microinsurance would better target layers 2 and 3, where purchasing power is higher than among most of the people of layer 1. Nevertheless, it is important to underscore microinsurance cannot be synonymous with cheap insurance.
5. **Flexible payments are another fundamental factor influencing the decision to buy insurance products.** One of the main requirements made from insurance was the option to "pay moderate installments and with flexible repayment schedules".
6. **The highest renewal rates are linked to payments made together with utility bills.** Assuming consumers are aware of the products and their benefits and give their consent to renew their contracts, it may be reasonable to hold they will buy and pay for the product and will continue to do so and renew their contracts when payments are easy to make (likely through a convenient channel for low income people). However, an important in insurance renewal is a good experience with both products and providers.
7. **People do not establish a clear difference between "social security" and "insurance".** This is particularly true in rural areas wherepoor resource residents have little access to information.
8. **FG participants showed distrust towards banks. Interviews also revealed such lack of confidence also spreads to insurance companies in some instances,** although few of them have a relationship with banks and their services.

9. **Distrust is further aggravated by negative experiences among relatives, friends or acquaintances of FG participants.** This points to insurance companies' failure to get closer to low income people. A key lesson from this country study is insurance companies should be able to create products that will not only build trust among low income people but also engage in marketing and communication campaigns to enhance people's perception of their industry.
10. **Companies need to learn in detail which are the needs faced by layers 1, 2 and 3 and design appropriate products to cover real risks and provide tangible benefits.** Examples of such efforts include initiatives by Bancóldex through its FUTUREX Life insurance, which includes vaccination campaigns, mother's day parties, delivery of back-to-school packages among others. FG participants said insurance companies should make their products "*… attractive so people realize the importance of having insurance".* Companies should aim at delivering tangible benefits that make their products attractive to this people who, generally, have very little experience with formal insurance.
11. **Interest was shown to have personal counsel who would provide assistance and support to better understand products. This will in turn, create a relationship of trust in and support to providers.** Nevertheless, providing such advice can increase costs and, therefore, a balance must be struck between these two considerations.

6.4 Public policy, oversight and regulation

- ***Public policies***

1. **CG recognizes the importance of insurance as a risk management and financial inclusion tool; this acts in favor of the national microinsurance market.** The Colombian government acknowledges its importance not only by including insurance in the financial inclusion agenda but also for natural disaster management and to manage the general risks faced by government and public entities, by accepting mandatory insurance principles.
2. **The government of Colombia has opened channels to encourage access to insurance and is therefore, "unlocking" the captive demand for microinsurance to the private sector.** This has been accomplished principally through the beneficiaries of certain social and entrepreneurship programs. Likewise, the subsidy was adopted to purchase microinsurance products as an incentive to savings in the framework of BEPS.
3. **Colombia has in place an institutional policy for disaster management that recognizes the importance of risk transfers. DRFI's** strategy can leverage the debate on natural disaster management at the micro level for the microinsurance target population. Likewise, an interesting PPP experience has been identified that create a direct benefit for the resource poor people in Manizales city reflecting the importance of natural disaster risk transfer through insurance schemes.
4. **Against the backdrop of financial inclusion efforts, the Colombian government has opened interesting transactional platforms that can be useful to microinsurance in particular bank correspondence and mobile banking.** Given the penetration of bank correspondence throughout the country, the Colombian government has focused on expanding mobile banking where it sees a great potential to increase ability to made transactions nationwide.

- ***Supervision***

1. **Although SFC does not retain microinsurance specialist staff, it has and continues to engage in major efforts to promote microinsurance's responsible and sustainable development in Colombia.** This is made

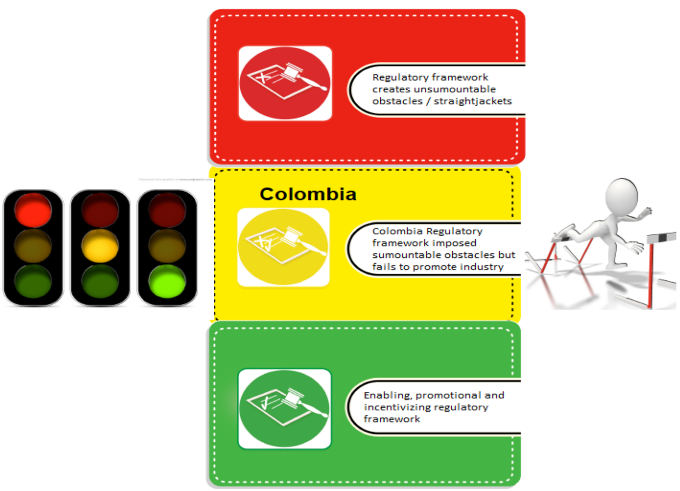
clear not only by its interest in including insurance in the financial inclusion debate agenda but also by a genuine interest in identifying regulatory tools that would encourage such products and protect consumers in this regard.

2. **Various oversight bodies should build knowledge about the evolving Colombian microinsurance market since their regulatory audiences are involved as distribution channels and transactional platforms for those products.** This is even more so when taking account that consumers of these types of products oftentimes cannot identify the insurer from the insurance distributor or the transactional platform used.

- ***Regulation***

1. **The microinsurance regulatory framework enforced in Colombia does not create unsurmontable obstacles for microinsurance development; however it does not promote or incentivize them either.** The Colombian microinsurance market has evolved without regulations aim at fostering its growth or removing specific obstacles. However, this does not imply it is barrier free**.** These obstacles may be surmounted and if so, they would pave the way and further encourage microinsurance growth. Likewise, the existing regulatory framework fails to foster or incentivize market players to develop a responsible, innovative and needs-driven microinsurance market. (See Figure 26).

Figure 26 Regulatory framework classes



2.The two most important present regulatory barriers. Although these barriers have not fully hampered developing access to insurance in Colombia, if moved they would facilitate and encourage a responsible microinsurance markets. These two barriers include access to distribution channels and obstacles to introduce fast and straightforward contracts and processes. (See Figure 27).

<u>Top 3 access barriers</u>:

(i) Only credit establishments can commercialize mass insurance products in Colombia. Commercializing mass insurance products, which must meet the conditions of universality, simplicity and standardization can only proceed through credit establishment networks. This was possible after a clear framework was created to provide training and the responsible use of such channel. Oher alternative channels through which microinsurance products are presently distributed do so through strategic alliances that consolidate collective policy underwriting. In those cases, aggregators act as policy takers and their clients are the insured beneficiaries of such policies. Insurance entities have used alternative distribution channels by establishing innovative strategic alliance which, in most cases, materialize in group or collective insurance contracts. Consequently, the policy take (the aggregator) commercializes the product to its clients, the insured individuals. Although the interest of industry in avoiding this regulatory to make their products more accessible is widely accepted, the following emerging failures were identified because of insufficient regulations in this regard, namely:

(i) lack of rules for massive insurance products commercialization, i.e. who can sell those products, what requirements must be met and what types of insurance can be commercialized through this mechanism among others; (ii) poor bargaining power among insurance entities, leading them to pay excessive commissions; (iii) regulatory gaps that may have a negative impact on consumers, a condition further aggravated by opaque information requirements for certain group or collective insurance types; (iv) lack of clarity about the minimum training to be provided to channels or the ways in which consumers receive information; (v) lack of clarity about the supervision of channels acting as mass channels and; (vi) lack of clarity about the way responsibilities will be shared before consumers between new channels and the insurer - consumer.

(ii) Bank correspondence cannot be used directly by insurance entities to commercialize insurance products.

(iii) Currently the option to use bank correspondence as players in the insurance network for product marketing is under debate.

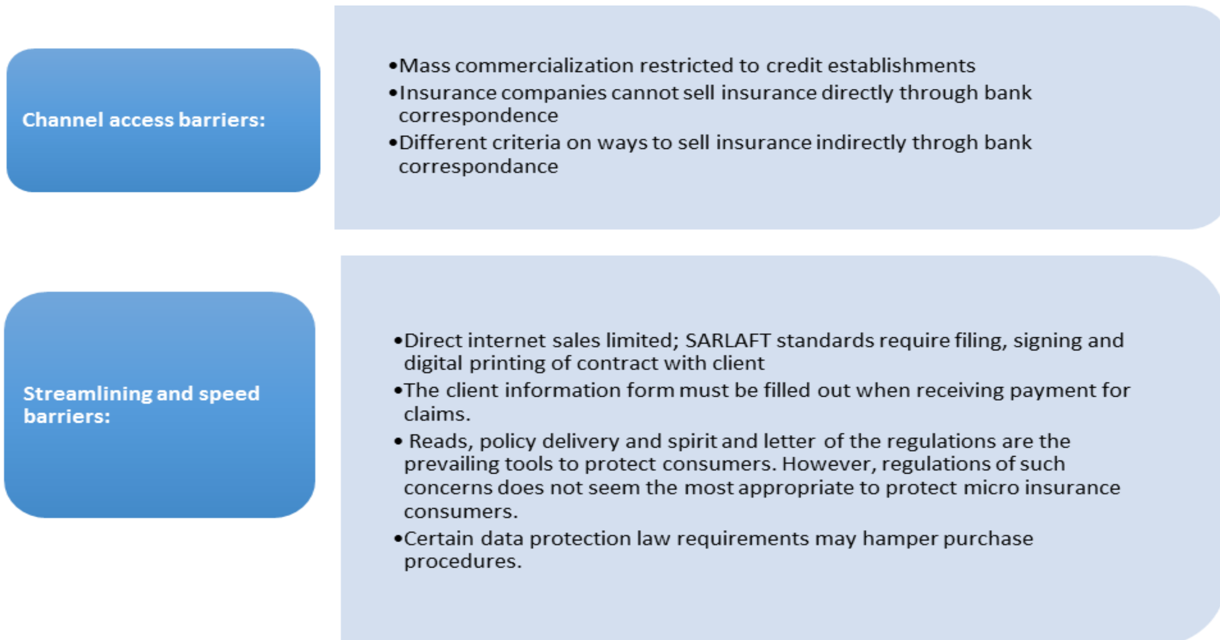
<u>The 3 most important speed and simplicity barriers concerning contract documents and processes</u>:

(i) Regulations aim at creating more flexible purchase procedures, particularly by relaxing the requirements for clients to be aware of measures for the struggle against assets laundering. However, the respective forms must be filled out when the claim payment is made.

(ii) Consumer protection regulations revolve around the importance of written documents, meeting formal requirements and other substantive contractual documents as well as the anticipated delivery of contract terms. Oftentimes, such protection tools hamper streamlining efforts, document understanding and they are not always appropriate to meet microinsurance consumer's needs. The microinsurance consumer's depravations and living conditions mean such formal and multiple documents to meet certain formalities do not always effectively protect consumers;

(iii) Colombia has in place robust and financial protection regulations. However, certain requirements may hamper purchase processes, as is the requirement to provide explicit authorization for data use and storage, required at the time of contract signing.

Figure 27 Colombia: Regulatory barriers



3. Five best regulatory components and potential incentives:

i. Regulations allow not only corporations to engage in insurance activities but also insurance cooperatives. This peculiarity favors microinsurance because such cooperatives have a national scope and run channels nationwide.

ii. Present regulation allow insurance regulators to adopt measures to encourage access to insurance. The 2009 financial reform emphatically provided the Colombian government tools to issue regulations to promote access to insurance across Colombia.

iii. Regulations have allowed to put in place certain transactional platforms to further financial inclusion, principally, bank correspondence and mobile banking. However, presently insurance companies cannot enter into direct agreements with bank correspondence for premium collection unless they have entered into a partnership with a financial entity operating one such network. Mobile banking is gradually emerging as the transactional platform in a not very distant future

iv. Regulations do not create barriers to product registration. Colombia, unlike other countries do not require individual insurance products registration, instead, one single operation permit by type of insurance is required from insurance companies, together with filing of the general contract clauses before SFC.

v. Farm insurance is steadily encouraged by Colombian regulations, thus, foreign insurance entities are now allowed to offer these products; VAT has been reduced from 16% to 5% and conditions for subsidizing small scale land owners have been clearly defined.

4.Seven regulations require attention for the potential adverse impact on protecting microinsurance consumers:

i. Since recently, Colombian residents may retain any type of insurance abroad, except for certain cases provided by law. Although this has resulted in enhanced competition, and therefore potential innovation, consumers of these products are not as protected by SFC, because they are issued by foreign insurance companies and their policies escape SFC's jurisdiction; moreover, those foreign insurance companies may not been required to comply with prudential, market behavior and consumer protection rules existing in Colombia. This is far from being an ideal situation for microinsurance consumers who most likely lack sufficient knowledge of insurance to choose a foreign product.

ii. Burial service companies are not licensed, regulated or supervised. However, they offer products identified as insurance by the microinsurance target population. Consequently, unfair competition issues vis-à-vis insurance companies remain, since the latter must be licensed are both regulated and overseen. Moreover, existing conditions might threaten consumers because burial service companies are not obliged to follow good market practices and may not even honor their promises as per burial service contract. In addition, as a result of the recent financial reform, beneficiaries of burial insurance must pay directly for the cost of the funeral, implying in certain cases when not money is available, taking debt as policy holders will only subsequently get reimbursed by the insurance company. This is not an ideal situation for microinsurance consumers and the present shape of a much needed type of insurance (i.e. burial insurance) is inadequate because of regulatory constraints.

iii. Group and collective insurance types, widely used in microinsurance also evidence regulatory gaps. Group insurance is widely used in microinsurance because it reduces adverse selection and reduces costs, however the group insurance regulatory framework should be robust enough and protect not only takers of group policies but also the insured beneficiaries. Such protection would guarantee ensured beneficiaries are aware of the rights, duties, product characteristics and conditions of use, so they can draw the most benefit from them. Unfortunately Colombia lacks general group insurance regulations, excepting when these policies are used by credit establishments.

iv. Indemnification payments must be made within a month after the claim has been posted and no formalities may be required other than those included in the corresponding law, so payments cannot be delayed without justified cause. A month's delay is not convenient for microinsurance consumers because their financial weakness requires faster indemnification. Likewise, extended periods for paying indemnities destroy confidence and are therefore not conducive to a better perception of insurance.

v. Most microinsurance products offered in Colombia are sold door to door, through call centers, by promoters at department stores and other non-traditional methods which presume consumers are not looking to purchase such products. In turn, this presumes the need to recognize the right to withdrawal from these types of contracts; nevertheless the law has interpreted right to withdraw rule does not apply to insurance.

vi. Questions were posed concerning potential conflict of interest at DFC, whose members are chosen and paid by insurance companies.

vii. SFC grievances statistics show the most frequent issues registered by consumers relate to inadequate information at the time of contract signing and inadequate financial consumer services. In addition, the most common complaints are filed against group life insurance (57%), a type of insurance prevailing among microinsurance target audiences. If these considerations are relevant for conventional insurance, they are equally or perhaps even so more important for microinsurance consumers.

<u>5.Seven positive components of microinsurance consumer protection</u>:

i. Regulations emphasize the need to make sure consumers make informed decisions and know how to use the products they are offered. Insurance entities are mandated to guarantee consumers are aware of the products' characteristics, can correctly identify the risk taker as well as the involved distribution channels and transactional platforms; are aware of the involved costs, rights and obligations; as well as the mechanisms and terms for using the product, filing claims and resolving eventual conflicts. To accomplish this goal, the method, appearance and content of dissemination tool is regulated. This is warranted when realizing many of complaints filed against this industry relate to poor information dissemination.

ii. Financial education is recognized as a consumer right.

iii. Tools were adopted to ensure the people know about the insurance they may take and cost of mass insurance. Debate has already taken place on the importance of promoting knowledge of mandatory insurance.

iv. Interesting tools are available to help consumers. In Colombia, legal counseling offices are available free of charge to poor resource people. Moreover, consumer protection associations such as the Colombian Consumer Confederation, provide advice and counseling nationwide through mass media including television broadcasting.

v. Although tools are in place for grievances and complaints management, as well as for conflict resolution, they do not always seem appropriate to meet the needs of the microinsurance target population because of related access and cost issues.

vi. SFC jurisdictional functions are pertinent and appropriate to serve microinsurance consumers.

vii. Colombian regulations recognize the importance of affording consumer appropriate protection and therefore have established the insuring companies' duties but also recognize the consumers' responsibilities. Consumers must act diligently at all times and must adopt good practices to obtain and verify information; however, failure to follow such practices does not entail any further consequences.

7 Recommendations

The recommendations below aim at encouraging the development of responsible microinsurance in Colombia. They will provide the ground for the road map, for the project and were selected taking into account (i) the present development of Colombia microinsurance market, a growing and diversifying market; and (ii) the need to ensure all players in the value chain are involved[160].

To encourage the development of responsible microinsurance in Colombia it is worth underscoring all interested parties, whether directly or indirectly, should be actively involved in adopting a consensus strategy (the road map) that will design specific roles and responsibilities. To ensure such consensus among all involved entities, a permanent dialogue platform should be built to define each of the players' roles and responsibilities, debate challenges and solutions, encourage improving the stakeholders' capacities and gather comprehensive and detailed information to monitor the growth of a responsible microinsurance market. Initially, it is suggested to build a strong dialogue platform that will involve not only insurance entities but all involved players. FASECOLDA's CM may provide an initial platform, however, it is suggested debate should be mainstreamed into a neutral forum, such as the Microinsurance Inter-institutional Committee, probably by setting up a task force for insurance access against the backdrop of financial inclusion strategies. The entities recommended for such Committee include FASECOLDA, SFC, the Ministry of Economics, BdO and the Colombian Consumer Confederation. We first present below the 5 proposed fields of action followed by

[160] Participants in the value chain include government, regulatory and supervisory entities, insurers, intermediaries, distribution channels, transactional platforms, consumers, consumer protection association, academia, etc.

recommended interventions to accomplish the five proposed goals. In all cases, we identify the entity with responsibility for such undertaking.

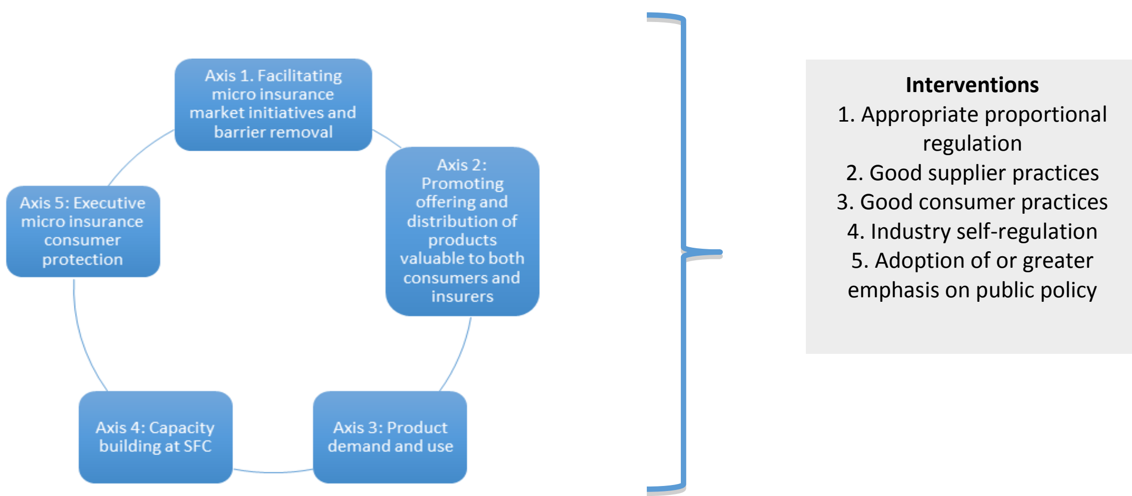
7.1 Intervention fields

The 5 fields of intervention for promoting responsible microinsurance development in Colombia are based on an analysis of the present market condition. We identify the following components requiring immediate intervention by all value chain participants to promote a responsible microinsurance market in Colombia: (1) Facilitating microinsurance market initiatives and removing regulatory barriers; (2) promoting offering and distribution of valuable products to consumers and insurers; (3) expanding demand and use of microinsurance products nationwide; (4) promoting enhanced technical capacities at SFC as regards microinsurance to ensure appropriate regulation and oversight; and (5) effectively protecting microinsurance consumers[161].

Complementary intervention fields. To develop responsible microinsurance in Colombia, all intervention lines must be activated and put into motion, with each axis perfectly matching the rest (see Figure 28).

Five interventions are proposed for each axis. Each intervention field requires involved stakeholders to undertake specific interventions which may be principally: (1) appropriate proportional regulation and oversight; (2) good provider practices, including insurers, channels, transactional platforms, etc.; (3) good consumer practices; (4) industry self-regulation; and (5) adoption of or greater emphasis on public policy.

Figure 28 Intervention fields and types



7.2 Intervention by axis

7.2.1 Facilitating responsible marketing efficiencies and removing barriers

7.2.1 Proportional regulation as the appropriate intervention to meet first axis goals

[161] Although consumer protection cuts across all these fields, this component is included as an additional axis.

By removing barriers to microinsurance, the regulator recognizes their importance as essential components in promoting access to insurance and risk management among the target population. As mentioned earlier some regulatory barriers remain. Although they are not unsurmountable, they should be removed to enhance a responsible microinsurance market in Colombia. The way to remove such barriers falls exclusively within the regulatory field. Removing barriers of access to channels and barriers to further streamlining and agility can be accomplished through regulatory interventions that allow using channels showing the greatest potential to reach layers 1, 2 and 3, and by streamlining the contract procedures and documents used in microinsurance. From this standpoint, appropriate regulation emerges as a useful intervention to the benefit of all market players. To begin with, industry as this regulatory proposal opens an opportunity for expansion and helps it meet its largest challenges. Secondly, it aims at providing effective consumer protection. Striking a balance between drivers of innovation on appropriate microinsurance consumer protection is the main challenge nations must face when tackling the issue of microinsurance specific regulations (IAIS, Application paper on regulation and supervision supporting inclusive insurance markets 2012).

Such regulation should also embrace low cost mass insurance. This diagnosis emphasizes Colombia's insurance industry offers several types of affordable and accessible to the microinsurance target objective, including those insurance products FASECOLDA classifies as low cost mass insurance and microinsurance *strictu sensu*, low cost mass insurance not reported by FASECOLDA's CM and microinsurance products promoted by the government of Colombia in the framework of its PPP's initiative. To ensure a growing responsible microinsurance market, all these categories must be properly defined and monitored since microinsurance consumers are not always able to separate categories and a bad experience with one product will contaminate other categories, also from such standpoint, promoting Colombia's responsible microinsurance market requires regulations will not only embrace microinsurance understood as products specifically designed for resource poor people but also low cost mass insurance. In all instances, such low cost mass insurance products are risk management tools that despite their little value for consumers compared to microinsurance, in some cases they are the only option available to resource poor people. Consequently, for the sake of promoting insurance access agenda, barriers should be removed that hamper also massive insurance.

Nevertheless, incentivizing industry to provide microinsurance products requires giving microinsurance a greater value that low cost mass insurance from the regulatory viewpoint. If insurance entities are not encouraged to offer products that are specifically designed for and targeted to poor resource people, industry may not be able to accomplish that goal in the near future. As mentioned earlier, there exist few responsible microinsurance products at present, mostly are offered in the framework of PPPs. On the one hand, in those countries where insurance products can be sold massively but microinsurance has not been regulated, industry will not be spontaneously interested in offering microinsurance products, unless they are insurance competence imbued with a strong social commitment. Such is the case of El Salvador in Guatemala, where according to recent microinsurance market surveys, various types of entities are allowed to massively market their products leading regulators and supervisors in both countries to make significant strides in reviewing specific microinsurance regulations. Additionally, other countries where microinsurance and mas insurance have been regulated but do not offer further incentives to microinsurance but rather have set up certain barriers to industry, such as Peru, the industry's trends have been to find cover under the most beneficiary and flexible regime, so they will not typically register their products as microinsurance but rather as mass insurance products. (Camargo and Furst Gonçalves, Encouraging access to insurance in Peru: Reshaping the insurance environment for the underserved and unserved 2014). Having said that, it is essential to offer greater incentives to microinsurance so Colombian industry will be encouraged to offer such products, such a recommendation falls in line with the regulatory proportionality approach explained in (Gray, et al. 2013).

Regulatory incentives are recommended for the Colombian case including removal of barriers to channels and a greater simplicity and agility, as a response to the present condition of microinsurance in Colombia. It is worthwhile underscoring other countries have adopted various types of incentives so the decision to choose one or another will depend on the present condition of microinsurance market development in each country. There are no universal rules that determine the specific convenience of enforcing certain types of regulations for microinsurance products and, consequently, each country shall made a decision based on its own experience, conditions, potential and market maturity, current regulatory status and their purported public policy objectives (IAIS, Application paper on regulation and supervision supporting inclusive insurance markets 2012) (See Annex F). To learn more about international regulatory experiences, a recommendation is made to review the diagnosis published at the A2ii webpage and the available regulatory package.

7.2.1.1 Recommended regulation

Regulators have a mandate and the ability to promote access to insurance. The 2009 financial reform opened the possibility to adopt regulatory measures to promote access to insurance in Colombia. From such standpoint the Colombian regulator has the mandate and ability to create regulations that will promote access to insurance in Colombia.

Proposed regulatory intervention components should be adopted through a proportional approach. The Ministry of Finance is advised to pass regulations that will embrace both microinsurance and mass insurance so as to remove the above mentioned barriers and encourage responsible microinsurance market efficiencies nationwide. This would be feasible through regulations allowing Colombian insurance companies to use certain commercialization channels when distributing microinsurance or mass insurance products. Evaluating the nature of such product (whether mass or micro) will take place when filing for use of such channel before SFC.

1. **Defining microinsurance and mass insurance:** offering regulatory incentives to industry presupposes putting in place a special regime for microinsurance and mass insurance products, regulation must, firstly delimit its field of action. This requires adopting a definition for microinsurance and mass insurance. Such definition should be simple and friendly, allow creating a straightforward checklist SFC can apply when accepting applications for channel use and should not in any way resemble a product registry or approval. A recommendation is made to use the present evaluation made by SFC when authorizing the use of networks to insurers for commercializing universal, standardized and straightforward insurance products.

   a. Mass insurance: a recommendation is made to adopt a definition of "mass insurance" that replicate the mass commercialization characteristics defined in the single decree, including universality, simplicity and standardization. It is worth underscoring the consulting team has access to a draft regulation prepared by certain insurance agencies. This proposal was prepared taking account of experiences that have already regulated this type of insurance, including Peru, Guatemala, El Salvador, and others. A detailed review of this project by all market players is advisable to make progress by taking into account international positive and adverse experiences. Moreover, this requires debating on the necessary definitions with other regional regulatory supervision entities.

   b. Microinsurance: choosing one definition of microinsurance or another can have a direct influencing on developing responsible microinsurance as such definition may pave the road for greater innovation, proportionality and access to insurance. Likewise, an inappropriate definition of microinsurance might hamper innovation, introduce regulatory arbitrage increase risks or hamper fear competition.

Recently IAIS and A2ii noticed a regulatory framework conducive to a responsible microinsurance environment requires a definition of microinsurance meeting the following criteria: (i) differentiating microinsurance from non-microinsurance; (ii) creating a special framework for a special "low risk" insurance class; and (iii) providing additional protection to a specific population segment (IAIS 2014). In particular, following the first call for experts of IAIS-A2ii, it was mentioned participating entities should be clear about the elements to be defined, including: (i) a general description of microinsurance; (ii) the microinsurance target population segment; (iii) the nature of the microinsurance business; (iv) a definition of who may be the "insurer" for this type of products; (v) who may act as distribution channels for these products; (iv) what is a microinsurance product; and (vii) what is microinsurance contract (IAIS 2014). In this respect, the Application Paper on regulation and supervision to support inclusive insurance markets prepared by IAIS established the following criteria to be taken into account when assessing the above mentioned components of a microinsurance definition: (i) the definition should focus on products and all insurers should have the ability to offer microinsurance products; (ii) microinsurance definitions should clearly separate microinsurance from other types of business; (iii) if quantitative elements are included when defining microinsurance (for instance, the amount of the premium or the insured risk) they should be se broadly to ensure the most inclusive possible product; (iv) these quantitative elements should help in determining the business profile that will subject matter to proportional regulation and supervision. An evaluation of international experiences shows typically countries that regulate microinsurance generally found microinsurance are aimed at resource poor people and, depending on individual cases, the decision was made to include quantitative criteria when determining the target population and/o product. On the contrary, some countries chose to avoid a quantitative population and/or product definitions and rather defined microinsurance based on the products' characteristics. The involved entities are recommended to review definitions such as that adopted by Ghana, which is both qualitative and operative, but does not refer to quantitative criteria. Their definition emphasizes the product's characteristics (target population, affordable premiums and accessible products) and, as proof requires the insurance entity to send a justification to the supervising body explaining why it regards its product meets those characteristics.

Based on such experience a recommendation is made for Colombia to adopt a definition as follows: microinsurance products are those which: (i) are specifically designed taking into account the resource poor population needs and characteristics (priorities / potential risks, ways and frequency of premium payments); faster repayment periods; (ii) are characterized by the simple design of the product itself as well as the applicable contracts and processes; (iii) may be accessed through channels aiming at serving the target population; and (iv) they are affordable and their cost is proportional to their presumed risk covered. To demonstrate these are products targeting the resource poor people, it is recommended to allow insurance entities to demonstrate their product is aimed at layers 1, 2 and 3 or to people living in remote or extremely poor areas, for instance rural areas or others or products targeting micro and small companies, micro and small companies owners or through any other appropriate tool.

2. **Removing barriers to access mass and microinsurance:** in addition to enhancing access to insurance products, these measures will lay down clear rules of the game to encourage competition by allowing various entities to distribute insurance products, including mass channels, microinsurance channels and microinsurance agents and streamline transactions. The increased number of players may reduce the high present commercialization costs in Colombia.

a. *Mass insurance*: this regulation will allow using alternative distribution channels characterized by their massive reach to all segments of the population and not exclusively resource poor people. In these cases, proportional requirements must be set forth for these channels to act as mass channels. Those requirements will hinge on: (a) institutional setting and organization; (b) training; and (c) allocation of responsibilities. Emphasis is made on training to be proportional to the complexity of the product offering (mass insurance) which will allow to cut expenses without hampering consumer protection. These requisites may be similar to those set forth to regulate network use.

Additionally, a recommendation is made to explicitly establish the ability to use transactional platforms of interest, including bank correspondence and mobile banking. These platforms will allow to: (i) collect premiums and pay indemnifications; and (ii) deliver and accept insurance applications, policies, general condition documents, certifications and documents needed to post claims, etc.

To ensure appropriate oversight, we suggest reviewing an option to create a registry of the mass channels used by insurance entities, which will record all products and clearly establish their mass nature. A recommendation is made to review Peru's experience.

b. Microinsurance: to specifically encourage microinsurance product's development, a number of additional incentives may be provided:

i. Entities, associations or other types of organizations that do not necessarily meet institutional or organizational requisites required from massive channels may be also allowed. However, they must be focused on serving the microinsurance target population in Colombia, as happens with bank correspondence, bank correspondence networks, NGOs, MFIs, Family Compensation Funds, remittance agencies, production cooperatives, rotatory savings arrangements (ROSCAS or "natilleras")[162], and other microinsurance channels. Differently from mass insurance, Bank Correspondence will be allowed to commercialize microinsurance products and not only perform as transactional platforms.

a) These entities, associations or organizations will be allowed to offer group or collective policies to their clients or associates. In this case, the importance of encouraging knowledge about the existence of those products, the benefits and mechanisms when used by their clients or members must be underscored. We propose to review the possibility of regulating certain components of collective or group insurance to ensure appropriate protection to insured beneficiaries. Nevertheless, those regulations will not be specific for microinsurance and alternatively a broader regulation should be encouraged for group insurance products.
b) Microinsurance channels must meet minimum training requisites in proportion to the extent of their activities. Emphasis in once again made on requiring eligibility criteria to be proportional to the degree of complexity of products to be commercialized.

ii. Bancóldex should be allowed to operate as an authorize channel to commercialize microinsurance products.

[162] Nigeria, for instance, recently introduced micro insurance regulations recognizing "zuzus", a different type of ROSCAS, to commercialize microinsurance products.

iii. Likewise, we suggest reviewing together with industry whether the requirements presently imposed on insurance agents are prohibitive and if so, study the possibility of reducing them for agents commercializing microinsurance products. Such initiatives would imply creating "microinsurance agents", or individuals meeting certain minimum training criteria. These agents will typically be individual whom the people trust and adopt as a role model. As mentioned in the chapter of demand, the target population has underscored their interest in receiving direct counseling. These microinsurance agents could operate independently or together with microinsurance channels. In the latter case, when microinsurance agents are the only point of contact with the client or associate to educate them about the products characteristic, it will not be required to train the microinsurance channel staff. Also in these cases, insurance entities may be held liable for any mistake, negligence or damage caused by their agents.

As with mass insurance, bank correspondence and mobile banking will be allowed to facilitate transactions, including premium payments, indemnifications, event notices and others.

3. **Flexible contract documents and processes to streamline and speed up microinsurance, thus effectively protecting microinsurance consumers:** nimble and simple procedures will benefit suppliers and consumers. In the specific case of microinsurance we propose reviewing the following recommendations, after examining their undesirable potential impacts:

i. Microinsurance products should be simple, this means they must be easy to understand and use in terms of the coverage they provide, the documents required, and avoidance of unnecessary exclusions, grievance procedures, fast reply periods and friendly grievance and complaint management schemes. As regards payment of indemnifications, some countries have chosen to set forth minimum periods to preserve the value of insurance before a target population characterized by financial weakness. A regulation determining immediate payment for microinsurance compensation is advisable and in line with a simple product design. However, this proposal must be discussed with industry to determine its feasibility. Likewise, it should consider introducing minimum payment terms for mass insurance which are just as used by the target microinsurance population, because failure to pay indemnifications properly will have unequal and negative impact on the people. In addition, a minimum payment period for mass insurance should also be determined as otherwise dissimilarities would lead to regulatory arbitrage between microinsurance and mass insurance (Camargo and Furst Gonçalves, Encouraging access to insurance in Peru: Reshaping the insurance environment for the underserved and unserved 2014). Taking into account Colombian traditions, a second option to introduce microinsurance would include an initial stage of independent industry regulation under SFC monitoring. SFC would, thus, not only be involved in the industry's self-regulation debate on this issue but also engage in continued follow up through detailed microinsurance data reporting;

ii. Filling the SARLAFT form should not be requested when paying for microinsurance indemnification payments;

iii. Prior delivery of policy contracts should not be required before contract signing. Instead a flyer designed by SFC should suffice in these cases to create awareness among potential consumers on good practices to be adopted before buying the product, asking what are the risk covers, request clarification about the entity or product, and identifying a contact point at SFC. This will effectively protect consumers as microinsurance consumers are not actually protected by extensive, unfriendly policies full of references to the Code of Commerce among other tools generally available. A recommendation is made to take into account the findings of the recent consumer protection study in Colombia (Zimmerman, Magnoni and Camargo 2013);

iv. Streamlined individual policies and certificates similar to a key data sheet, together with a card showing general policy information and the point of contact at the insurance entity where complaints may be filed, should be allowed. We emphasize that simple contract documents are the consequence of a simple product; simple documents cannot be expected to be used with an extreme complex product.

SFC and the Ministry of Finance are recommended to discuss with competent entities the likelihood to provide the consumers explicit authorization to use and store data once the microinsurance contract has been signed.

4. **Ensuring compilation of detailed data for mass and microinsurance products.** To accomplish this goal, industry should deliver SFC detailed and complete reports where the focus of reporting will be the authorized channel to facilitate objective monitoring of a responsible microinsurance market.

7.2.2 Promoting sale and distribution of products adding value to consumers and insurers

The insurance industry is recommended to adopt good practices in the following respects:

1. ***Industry should improve their knowledge of the detailed needs, characteristics and depravation of their target population through appropriate market surveys***. Companies interested in the microinsurance industry should avail themselves of strong risk, needs and demand information concerning their clients to adequately design their products. International experience shows there is a direct relationship between customer knowledge, their level of satisfaction with received products and renewal rates. In other words, client knowledge is the best guarantee to sustain a microinsurance market. Demand surveys would allow to match coverage and processes to the needs of the target population and add value for these clients. However, a significant barrier in developing the microinsurance sector is the high cost of target customer information, in addition to the risks they face. This viewpoint was shared by all agents interviewed during our Colombian field trip. We suggest the Inter-institutional Microinsurance Committee should undertake those surveys for use by all members. Likewise, existing and future market surveys in the framework of PPPs should be disseminated while insurance entities should have detailed knowledge of the vision of channels targeting low resource people.

2. ***Industry should design innovative microinsurance products addressing the needs of the Colombian microinsurance target population, and which provide tangible benefits.*** These products include insurance against home damage not necessarily connected to home loans; multi-risk insurance for SMEs; natural disaster insurance; insurance for small scale land owners, for which incentives already exist; microinsurance products including savings components; non healthcare complementary insurance (hospital cash); products aiming at urban low income people; products for the informal (underground) economy and others; these products should take account of the four characteristics required by an insurance target segment, i.e.: (i) products featuring moderate, flexible and easy to pay installments; (ii) family-wide insurance; (iii) products from renowned experienced insurers and (iv) simple products. It is likewise recommended, insurance entities should identify elements that have little or no impact on the

product's cost, which can provide a more tangible benefit or add value in the eyes of the target population. Examples include medical check-ups; power meter inspections; loyalty cards, product information sent to cellular telephones, technical assistance for farmers and others.

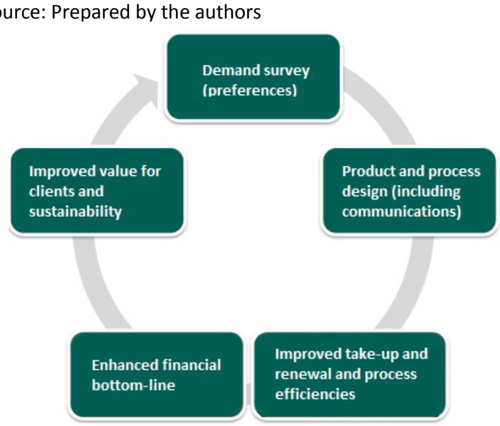
3. ***Industry should take advantage of the approach adopted in pilot PPPs while BdO and Bancóldex should encourage its dissemination***. Insurance entities, channels and transactional platforms should have detailed knowledge of those experiences and learn from them. Such experiences (i) provide an example of the models' potential and viability, and (ii) build trust among the target population. Since BdO and Bancóldex have been involved in most PPPs. It is recommended they take a greater role in creating, consolidating and disseminating public or public-private information of interest to the microinsurance sector.

4. ***Industry should engage in continued follow-up to ensure products provide a real value to consumers and are effectively profitable and financial sustainable.*** A previous recommendation was made to include special regulations that will require industry to provide detailed information on microinsurance products to SFC. Such broken down data will include the information needed to assess the insurance entities' performance by monitoring key performance technical and social indicators.

Nonetheless, such follow-up of the product value is also feasible using other tools, such as consumer satisfaction surveys, regular product assessments, post-sale follow-up calls and others. Initially, we propose insurance entities improve their capacities to engage in adequate indicator follow-up and take measures to improve their products provide real value to consumers. Industry should monitor the following indicators and components on an aggregate basis but also individually for each insurance company: (i) product purchase rates; (ii) claims indexes; (iii) time to indemnification payments; (iv) claim rejection rates; (v) grievances and complaints from microinsurance clients and their reasons; (vi) renewal rates; (vii) commissions paid to channels and transactional platforms, as well as indicators of expenses incurred.

Figure 29 A vicious circle for microinsurance provides value to consumers

Source: Prepared by the authors



SFC is recommended to become involved in such process so their staff can assess the product's value and in the future examine the option to have such follow up led by SFC on an official footing.

Such follow up will not only benefit consumers by also industry as this process will allow insurers to engage in monitoring needed to introduce changes whenever necessary to improve their products and adapt them to the target population preferences and needs. In turn, those efforts will enhance confidence and consequently, product purchasing through the consumers' good experience with same. (See Figure 29).

Additionally, we suggest to simultaneously put in place indicators to gauge inclusion in the insurance market, encompassing relating to the product's value. Such indicators may be included in subsequent financial inclusion reports.

5. **Enhanced the use of transactional platforms to expand access and "transactionability" and to reduce costs**: insurance companies must bear in mind a channel's transactions may also be performed through other types of entities or platforms, as would happen with bank correspondence, their networks, mobile banking, Banco Agrario, points of contact, the postal service and others. Experience at some PPPs demonstrate these are all viable platforms.

7.2.3 Expanding demand for and use of microinsurance products in Colombia

<u>*Industry is recommended to adopt best practices to*</u>*:*

1. ***Explore the use of potential channels to expand access and reduce costs, once regulatory barriers are removed.*** Insurance companies must resort to presently underused channels where costs are not as high as in the traditional mass channels. Likewise, if regulation so allows, other channels may be explored, including underutilized or unutilized channels presently not tapped due to lack of regulation that sheds light on their use, including settlements chambers, MFIs, MFIs in the Bancóldex network, Bancóldex itself, remittance companies, postal services, bank correspondence, the bank correspondence's network, cooperatives, raffles, lotteries, various types of employers, banks, willing to serve and reach out to the target population, land management entities and others. Annex D features some of the characteristics of these potential channels.

2. ***Explore the scope of web-based sales and use of other technologies for the microinsurance industry.*** Colombia's internet penetration rate among the microinsurance target population is on upward slope thanks to programs like "Vive Digital". In future, direct web-based sales may emerge as a strong additional option.

<u>*Recommendations for government to adopt public policies that*</u>*:*

1. ***Formally acknowledge the role of insurance across all its public policies and ensure coordination in examining insurance issues in all cases.***

2. ***To keep opening channels to use microinsurance***, in particular among beneficiaries of its social programs, low income housing projects, people displaced involved in the land restitution processes and micro, small and medium sized companies, against the background of promotion initiatives for those enterprises nationwide. Because the target population of microinsurance products is basically found in layers 1, 2 and 3, PPP can become major tools to graduate clients for layer 1 and bring them closer to microinsurance products.

3. ***Encourage local governments to open channels to use microinsurance products.*** Experiences as in the city of Manizales mentioned above may be replicated and provide the foundations for even greater innovations.

Recommendations for the insurance industry, government and SFC to:

Advance the issue of financial education. A consensus design of programs actively involving consumers or their representatives and subject to ongoing program follow-up based on international parameters should be the pillar of significant progress in financial education nationwide, outlined in the chapter of public policies. SFC is recommended to adopt an active role in designing financial education study programs, in particular to insist in the importance of encouraging knowledge about microinsurance, consumer duties, applicable processes and complaints, grievances and conflict resolution schemes. Emphasis is placed on the importance for these educational financial programs to contribute to promote and explain the "brand" or "logo" to the target population, which in turn requires simple, straightforward product terms. Unless people are aware of such "brand", they will not be able to profit from such advantage.

7.2.4 Building microinsurance technical capacities and SFC

SFC is recommended to:

1. ***Get training on the way to introduce proportional oversight and regulation to encourage a responsible microinsurance market.*** Oversight requirements should be aligned to the nature, scale and complexity of the risks taken by individual insurers. This will not be possible unless the oversight body has detailed an appropriate knowledge and the various implications of microinsurance regarding risk management. This will require adopting the following measures: (i) analyzing the SFC's staff training needs regarding microinsurance and teaching courses that match identified needs; (ii) create sharing programs with other financial oversight bodies and authorities regarding microinsurance through which experiences, lessons and other may be shared. A forum should be established for sharing information and ideas with members of other SFC departments, including banking, cooperatives and MFIs under SFC's oversight.

2. ***Strengthen its capacity to evaluate and oversee the microinsurance market's performance based on technical and social indicators***. To this ends, compiling detailed microinsurance information should be a first step. Nevertheless, SFC must get training, for instance through A2ii, IAIS, and regional and international conferences, where experience is shared to assess performance. It is essential to compile the required detailed information to evaluate the real value of market products.

3. ***Promote dialogue among oversight bodies that may be indirectly involved.*** Such as the Superintendencia de Servicios Públicos (utility rates), CRC, among others.

7.2.5 Effective protection to microinsurance consumers

As previously mentioned, consumer protection must cut across all the above axes and promoted for all types of interventions. However, in addition to the above recommendations, other additional suggestions are presented below:

Self-regulated recommendations for industry:

1. **Consider adopting a microinsurance code of conduct.** This code should recommend identifying typically complex language used in microinsurance products, standardize typically troublesome clauses, such as risk

statement clauses; quick compensation for claims; include the right to withdraw in microinsurance contracts; extending claim reporting periods; removal of additional requirements to pay compensation; identify minimum exclusions, depending on the type of product; minimum standards or requirements applied to microinsurance channels or agents; ensuring enough clauses or information appear in contract and marketing documents about available grievance and claim mechanisms, in particular before SFC and others.

Recommendations to SFC:

1. ***Study together with SES options to allow proportional formalization of funerary service providers that will resemble insurance products because of their methodology***. SFC, together with competent State bodies, could take account of IAIS position regarding the need to formalize risk takers among the target population since failing to ensure compliance with minimum prudential requirements and enforcing appropriate market conduct rules can impact not only the insurance market but also consumers who are particularly vulnerable. This requires adopting a proportional criterion when determining the requisites for offering such burial services, including prudential and reinsuring rules, taking note that meeting such requirements should only allow them to provide those specific services. Likewise, we suggest government bodies with competence in this field should review the existing mechanisms to provide indemnification from a burial insurance product that is not fit the peculiarities of microinsurance products' consumers who lack the resources to pay for burial services in advance and only subsequently request a reimbursement from the insurance entity.

Recommendations to providers, consumers, SFC and government:

1. ***Promoting legal counseling offices to provide free of charge assistance and advise to microinsurance consumers***.

2. ***Promoting the role of consumer protection associations that should create specific chapters targeting people at the bottom of the pyramid***.

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Annex A Demand surveys. Technical specifications

	Yankelovich Acevedo & Asociación (YANHAAS)	Focus groups – country diagnosis CNC	Financial inclusion survey Banca de las Oportunidades/ SFC	Colombian Longitudinal Survey; Universidad de los Andes , 2012
Objective	Market survey to determine the perception of resource poor social groups regarding microinsurance: risk exposures, payment capacity, expectations from insurance and impediments to buying insurance, among others.	Focus groups with layers 1, 2 and 3 people to gather information about perceptions on risk, insurance policies, insurance companies, and their financial potential and payment capacities.	Report on the debate about financial inclusion from the academic and practical viewpoints and to identify potential measurement constraints in Colombia. Identify population segments and geographic areas particularly vulnerable to financial exclusion.	Learn about poverty dynamics in Colombia to support designing of effective public policy to increase households' income in the long term, encourage asset accumulation and create enabling conditions for young people's human capital accumulation.
Company	Yankelovich Acevedo & Asociación (YANHAAS)	Centro Nacional de Consultoría (CNC)	Banca de las Oportunidades / SFC.	Universidad de los Andes
Methodology	• Yanhaas 2008 Demand Survey. • Financial education program, impact evaluation (baseline and follow up) • Data collection from various sources (Dane ECV, ECLA, financial capacity survey, financial burden survey, focus groups, etc.)	• Focus groups: 8 to 12 participants of similar characteristics led by expert facilitator. • Debate guidance for FGs prepared CNC including suggestions and comments from the A2ii consulting team. • Recruitment method: screening questionnaire to identify profile-matching candidates. Recruitment from CNC database in urban areas; recruitment visits to municipal offices in rural areas.	• National survey. Among 18 year and older participants who make financial decisions on behalf of their families and/or themselves • Participants chosen at random from selected households meeting Kish Table method specifications. • Objective and attitudinal questions.	Three tools: (i) Household questionnaire, (ii) Community context questionnaire, (iii) Anthropometric (weight and height) measuring of under 5s, and oral skill tests for children between 3 and 9. Total: **10,800** households.
Target region	Bogota, Medellín, Cali y Barranquilla	Urban: Bogota, Cali, Medellin Rural: Pradera, Girardota, Barbosa.	Compiled data about adults from all Colombian regions and various socio-demographic characteristics.	Urban survey samples include private homes from layers 1 to 4 in five regions: Bogota, Central, Oriental, Atlántica and Pacífica (excluding Andén Pacífico). The rural universe included small scale producer households mainly from layer 1, in four microregions including Atlántica Media, Cundiboyacense, Eje Cafetero and Centro- Oriental regions.
Target population	Layers 1, 2 and 3	Male and female household heads from layers 1 and 2 between 18 and 65 living in urban and rural areas, previously selected. Household head is the (occasional or regular) income earner who decides on purchases to improve family's well-being.	Almost half of survey population from 2 groups: "vulnerable income administrators" and "very prudent low income administrators".	

Actual sample	(to be completed with additional FASECOLDA data)	79 persons. A total 9 FGs including women (49%) and men (51%) from layers 1 (32%) and 2 (68%).	Representative national sample of 1526 adults. Women were over-sampled (63% of survey group; 37% men).	Estimated sample size was 1,200 households in urban regions and rural subregions for a total 6,000 urban and 4.800 rural households. Probabilistic, stratified, multi-stage and clustered sample design.
Date	2008	19 to 28 November, 2013	June and July 2012	First half 2010

Annex B Field interviews

Andiasistencia S.A.
Asociación Colombiana de Derecho de Seguros (ACOLDESE)
ASOMICROFINANZAS
Banca de las Oportunidades
Banco Agrario de Colombia
Confederacion de Cooperativas de Colombia (CONFECOOP)
Departamento para la Prosperidad Social (DPS)
EQUIDAD Seguros
Federación de Aseguradores Colombianos (FASECOLDA)
Fondo para el Financiamiento del Sector Agropecuario (FINAGRO)
GAS NATURAL FENOSA
LIBERTY SEGUROS S.A.
MAPFRE Colombia
MARSH
Mercado de Paloquemao
Met Life
Ministerio de Hacienda y Crédito Público
Opportunity International Colombia S.A. Compañia de Financiamiento
Para Life Colombia S.A.
POSITIVA
PREVISORA Seguros
RSA Seguros
Superintendencia Financiera de Colombia
SURAMERICANA (Medellín)
Seguros BOLÍVAR
Swiss Re, Oficina Regional

Annex C Top 19 opportunities in the Colombian microinsurance market

Supply

1. A strong and consolidated insurance industry where some companies are particularly interested in microinsurance and show outstanding relevant technical capacities.
2. FASECOLDA's capacity to move microinsurance agenda forward, not only through gathering industry data but also by disseminating good practices. A significant industry self-regulatory potential.
3. Wide range of existing channels and potential new channels for distribution may reduce costs and bring supply and demand closer together.
4. Significant PPP pilot experiences.
5. Financial education as a right of consumers; insurance industry makes significant strides to promote it.

Demand

6. Close to 70% of Colombians in layers 1, 2 and 3 create a large potential market.
7. Need for wide range of insurance products for layers 1, 2 and 3.
8. Despite poor financial culture in layers 1, 2 and 3, people feel insurance is a good tool to mitigate everyday life risks. Also insurance can replace other risk management strategies, including informal lenders, that are not only costly but also a source of over-indebtedness.
9. FG data and international experience show the target population favor products that (i) are paid in moderate affordable installments, (ii) feature flexible and simple payment schemes; (iii) provide insurance for the entire family; (iv) are sold by recognized and experienced insurers and (vi) are simple products and processes.

Public policy, oversight and regulation

10. The Colombian government is interested in fostering responsible microinsurance products and financially sustainable products that create value for consumers.
11. Microinsurance is aligned with public policies to improve inclusion, risk management, natural disaster protection and farmers' risk coverage.
12. The Colombian government is interested in enhancing transactionability through bank correspondents and mobile banking.
13. Dialogue is ongoing between industry and government and particularly between the insurance industry, the Ministry of Finance and SFC.
14. SFC is interested in providing effective microinsurance consumer protection through better transparency, information and good customer treatment policies.
15. Existing regulations recognize the importance of consumers' self-protection good practices;
16. No insurmountable regulatory barriers hamper sector growth.
17. EOSF, through the 2009 financial reform, allows insurance regulators to adopt provisions aimed at encouraging access to insurance; the Ministry of Finance and SFC are open to encouraging responsible microinsurance.
18. SFC reports claims and grievances filed before SFC, insurance companies and DFC; these reports are available to the public and help to improve perceptions of insurance.
19. Various entities are willing to support layers 1, 2 and 3 as service consumers.

Annex D Regulatory incentives abroad.

To June 2013, close to 27 countries have regulated or committed to encourage microinsurance through regulatory tools, including 13 African States members of CIMA, India, Peru, Philippines, Mexico, Brazil, Nicaragua, Ghana, China, Nepal, Taiwan, Malaysia, Pakistan and South Africa. The Peruvian, Brazilian and Mexican cases are particularly relevant because of their geographic proximity.

Peru sought to promote microinsurance and protect consumers by allowing distribution of microinsurance products through mass channels, at a time when this was not an option. It protects consumer by requiring straightforward contract language.

Mexico defined this product and streamlined requirements for microinsurance commercialization channels.

Brazil adopted a national microinsurance strategy to regulate the entire microinsurance value chain, accepting new members, including microinsurers, microinsurance brokers and microinsurance correspondents. Additionally, it streamlined policies and put in place a special microinsurance tax system (currently debated in Congress). The tax incentives include: 1. Harmonized microinsurance tax payment through the microinsurance transactions special tax regime; 2. Companies that pay microinsurance premiums for their workers may deduct these expenses from their corporate income tax returns. This benefit will run through 2017; a similar rule applies to individuals paying microinsurance to their domestic employees: taxpayers are allowed to deduct up to 10% of the minimum wage from their income returns.

Philippines decided to formalize informal insurance entities; they are now required to partner with insurance companies or become insurance cooperatives or MBAs. Recently Philippines enacted consumer protection and microinsurance-specific conflict resolution mechanisms.

Pakistan underscores microinsurance consumer protection; these regulations are still pending of approval.

India encourages rural and social insurance provided by commercial insurance companies; in 2005 more flexible requirements from agents were introduced, microinsurance agents were established and mixed products allowed.

Annex E Potential microinsurance commercialization channels

Banco Agrario
Banco Agrario operates 89% rural offices, compared to only 14% private bank branches. Banco Agrario operates 52% of all rural bank offices in Colombia, or a total 661 branches. In 33% of the smaller municipalities, Banco Agrario was the only financial in 2012[163]. These figures point to the underutilized potential of Banco Agrario as a channel to bring microinsurance to rural areas. To December 2012, Banco Agrario served 1.5 million active customers from a range of economic population segments across Colombia.
CB
Toward the end of 2012, there were 27,993 bank correspondents, compared to 4,880 in 2008. This figure reveals the enormous outreach of bank correspondents, most of which are affiliated with one of the country's five largest banks[164]. Through bank correspondents, insurance companies could significantly increase their points of service and number of transactions, and improve policy sales efforts and premium collection.
Remittances channels
Remittances to Colombia from abroad averaged USD 352 per transaction. In 2012, 981,000 foreign remittances totaled USD 4.07 billion. Most of these remittances mitigate low income households' vulnerability. They are mainly sent from Spain, the United States and Venezuela, as deposits into accounts (21%) and money wires (79%). The main channels for these remittances are banks (32%), 43 Commercial Financing Companies (52%), currency exchange houses (6%) and stock exchange agents (10%). The cost for each transaction is steep. For instance, a USD200 remittance is charged 8% of the amount sent from the US and 6% from Spain. Adding a microinsurance to these transactions could help enhance the financial support these remittances afford low income Colombian families, or give remittance senders an opportunity to protect their relatives.

[163] Financial Inclusion Report 2012.
[164] Banco AV Villas, Banco Agrario, Bancolombia, Citibank, Colpatria.

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