

## **Microinsurance: What Can Donors Do?**

Poor people in developing countries enjoy few safeguards against the numerous perils of life-illness or injury, natural disasters, and loss of property. Microinsurance is growing in popularity among donors as one means of helping the poor manage risks and reduce their vulnerability. This Brief addresses how donors can effectively support microinsurance.

Governments in developing countries are often unable provide adequate social protection for their poorer citizens. At the same time, formal insurers in many markets do not see low-income people as viable clients. (However, there has been recent progress with some simple products, such as life insurance.)

### **How Can Donors Effectively Support Microinsurance?**

In most countries, reaching scale and providing real value to clients will likely require donor involvement in the medium term. Donors will need appropriate expertise and resources to engage effectively in microinsurance because it is relatively new, complex, and risky.

Donors have diverse reasons for wanting to support microinsurance. Even within the same agency, different units may have varying views on how subsidies can be used best, how much clients should pay for insurance services, and what roles the government and the private sector should play. Strategic clarity on the reasons for engaging in microinsurance affects how a donor's objectives are set, how expertise is recruited, and what type of monitoring is implemented.

Few donor agencies have insurance expertise. Agencies that make significant investments in microinsurance should have access to staff with appropriate technical skills. Donors can either invest in in-house expertise or ensure program staff have enough "insurance literacy" to outsource intelligently and select the best implementing partners. Some funders, like the Aga Khan Agency for Microfinance, have recruited full-time experts from leading insurance companies.

Determining when and how to deploy the appropriate instrument-from technical assistance to grants, loans, equity, guarantees, and policy support-requires good knowledge of market conditions. In many instances, relatively small amounts of funding provided over longer periods are needed. In markets where commercial insurers show interest, donors should focus on brokering relationships with organizations close to target clients.

Donors can also support public goods like research and consumer education. However, in the numerous markets where formal insurers are not yet willing to step in, donor funding can help build the institutional capacity to provide insurance services. The Bill and Melinda Gates Foundation recently awarded a grant to ILO to create the Microinsurance Innovation Facility, which will provide competitive innovation grants to stimulate ideas and involve new players providing insurance services.

There is still no consensus on what constitutes good performance for microinsurance programming. In part, this is simply because microinsurance is a relatively new area. To improve accountability for results, donors should agree up front on desired outcomes and performance. The CGAP Working Group on Microinsurance's subgroup on performance indicators is leading efforts to define industry wide reporting ratios and, ultimately, to establish benchmarks. This work is essential to improve performance reporting and will help shape donors' performance agreements with partners.