

Geneva, 14 September 2016

Submission by the Impact Insurance Facility of the International Labour Organization to the Warsaw International Mechanism Executive Committee on financial instruments that address the risk of loss and damage

The ILO created the Microinsurance Innovation Facility¹ in 2008 as an initiative committed to protecting low-income families from risk and to ensuring that these families understand insurance so that they can make better risk management choices. The Facility has worked to find lower-cost, high-impact insurance products and more efficient delivery channels in order to make insurance widely available to the poor.

The Facility has aimed to become a resource for the financial services industry, insurers, policymakers and donors to better understand the opportunities –and challenges– of delivering a risk management tool for the first time to vulnerable segments of the population.

During its first 6 years of activities the Facility launched five rounds of innovation grants that supported 55 organizations to develop new approaches on insurance for low income populations. The lessons and knowledge generated by all of the projects supported by the Facility have been consolidated in a knowledge portal².

In 2014 the ILO rebranded its engagement with insurance as the Impact Insurance Facility, from the recognition that insurance has a much broader, yet unfulfilled, development potential – including a potentially powerful tool to address the financial impact of climate risks.

The current strategy of the Impact Insurance Facility aims to enable the insurance sector, governments, and their partners to realize the potential of insurance for social and economic development. The main activities are based in three main initiatives:

Initiative	What?	Why?	How?
Market development	Accelerate the development of inclusive insurance markets in selected countries	It is vital for insurance to play its role in national strategies to reduce the vulnerability of populations and boost the productivity of economies. Developing inclusive insurance markets involves many stakeholders and can be accelerated through a coordinated process.	The ILO’s structured market development process involves the full range of stakeholders. The process is locally owned, coordinated and implemented. It promotes public–private partnerships (PPPs) and embeds insurance in national strategies.
Research and innovation	Test and innovate to develop better products and create strategies to achieve greater impact	Knowledge gaps still restrict the ability of insurance to fulfil its potential. Solutions are particularly lacking in several key areas, which we focus on.	Partnering with leading insurers to find and evaluate ways of overcoming the most restrictive barriers to the progress of impact insurance. These findings are extensively shared with the industry.

¹ <http://www.impactinsurance.org/>

² <http://www.impactinsurance.org/lessons-insurance-practice>

Knowledge and capacity building	Act as a global hub for capacity development	Insurers face a multitude of challenges as they move down-market. Together with the insurance industry, the ILO has amassed a wealth of lessons and experiences. The Facility is responding to the urgent need for those lessons to be applied on a much greater scale.	Equipping local and regional institutions to deliver our capacity building offerings. Powered by our new e-learning platform, we continue to develop tools and training courses to meet the needs of our focus countries.
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For each of these three initiatives, the Facility has created a set of tools and strategies that are meant to provide the different stakeholders with the relevant resources to tackle the main challenges that the insurance industry faces.

1. Market development

Our Market Development initiative accelerates the development of inclusive insurance markets. This is achieved through partnerships with governments, insurers and other stakeholders such as financial institutions and mobile network operators (MNOs). To achieve higher impact, we also promote public–private partnerships and help to embed insurance in countries’ strategies to reduce the vulnerability of populations and boost the productivity of economies. Furthermore, working closely with the private sector, regulators and other government agencies is the most effective way of developing a market that can be sustained in the long term, not just until donor or government funding runs out.

We take a market facilitation approach. An important first step is to develop a roadmap that sets out interventions to overcome the various obstacles to market development identified through a market and regulatory review. These interventions are usually aimed at improving understanding, stimulating demand, and strengthening the supply and regulation of inclusive insurance products in the country. The Facility specializes in implementing the following elements of the market development approach:

- Build the capacity of insurers, distributors and governments to serve the low-income market with valuable and viable products. Our approach promotes sustainability through making use of local training institutes, e-learning and an Executive Education programme provided in partnership with a leading global insurance school.
- Stimulate supply, innovation and improvements in client value through an acceleration fund coupled with technical assistance for the most committed players.
- Build an insurance culture through long term engagement on consumer education and protection with local insurance associations, regulators and civil society organizations.
- Stimulate collaborative action to develop industry-wide solutions such as data warehousing.
- Engage with insurance supervisors and other policy-makers to support market development, including through public–private partnerships, to enable the insurance industry to help achieve public policy objectives.
- Facilitate communities for knowledge sharing and coordination at the global or regional level

2. Research and innovation

The Facility has established two new partnerships to promote innovation in sub-Saharan Africa (see annexes a and b). In these partnerships we will use our innovation management strategy, which is based on five core principles for innovation management:

- Market research to understand client needs is fundamental to providing client value and customizing the value proposition for specific market segments.
- Adopting a consumer-centric approach allows insurers and distributors to make better informed allocations of marketing resources across customer acquisition, retention and development strategies.
- Rapid prototyping and testing accelerate learning and change by reducing innovation fatigue and allowing organizations to “fail fast”, moving on quickly from bad ideas.
- Creating a separate, cross-functional, innovation unit with a clear strategy for subsequent integration into the existing organizational structure enables faster and more efficient progress.
- Building an internal business case that is based on in-depth, on-going analytics allows senior management to take bold decisions for substantial and long-term business with the low-income segment.

3. Knowledge and capacity building

Despite growing knowledge of how to provide insurance to the “bottom of the pyramid”, the majority of insurers and distributors in emerging markets struggle to offer insurance products that are viable for them and valuable for consumers. Capacity gaps among managers are inhibiting progress. At the local level, training programmes are often unavailable and training providers have limited technical capabilities to address training needs. At the global level, the growing body of knowledge on inclusive insurance has yet to be organized into a formal programme that adheres to rigorous standards.

Recognizing these gaps, in 2014 the Facility launched a comprehensive programme that seeks to make capacity building sustainable. At the local level, we started partnering with local training institutes to help them develop more skilled trainers and to provide them with high-quality training modules developed by the Facility that can form part of their core portfolio. The engagement consists of a 2 to 3 year period where training courses are organized jointly by the institute and the Facility, and where local trainers undergo a certification process that involves them following a series of training sessions on both the Facility’s training methods and its content, as well as receiving mentoring on the way they deliver training.

Five local training colleges and institutes are now in partnership with the Facility in Nigeria, Kenya, Senegal, Bangladesh and the Philippines, with almost 30 trainers undergoing the process to become a “Certified ILO Microinsurance Trainer”.

At the global level, the Facility is in advanced stages of discussions with a world-renowned insurance university to design an executive education course that will provide local participants who have completed a minimum number of local courses with access to a globally recognized insurance education programme.

With this integration of local and global training, the Facility hopes to make impact insurance mainstream and strengthen much-needed capacities in markets where we operate.

Furthermore the Facility has been working in creating relevant communities of practice with key players in the climate and agricultural insurance landscape (see annex c).

In terms of lessons learnt our annual reports for 2014³ and 2015⁴ have dedicated sections that condense some of the lessons that emerge from our work. Furthermore, the facility has developed a dissemination product called *Emerging Insights*⁵ that documents specific ideas or lessons learnt from specific projects.

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³ http://www.impactinsurance.org/ckfinder/userfiles/files/Annual_Report_2014_EN.pdf

⁴ http://www.impactinsurance.org/ckfinder/userfiles/files/Annual_Report_2015_web_EN.pdf

⁵ <http://www.impactinsurance.org/emerging-insights>

Annexes

a. Partnership to stimulate innovation in sub-Saharan Africa

Through a new partnership with the Agence Française de Développement (AFD), the Facility will work with organizations in sub-Saharan Africa to strengthen their insurance offerings by providing support for research and innovation. The partnership will support projects in the following areas:

- Solutions that extend or supplement existing national health insurance schemes
- Individual or meso-level insurance that benefits small-scale farmers and improves their ability to cope with risks
- Insurance bundled with financial services or value-added services that not only improve consumers' ability to manage risk, but also increase their productivity
- Risk management solutions for micro and/or small and medium enterprises
- Using technology to improve understanding among clients and reduce the cost of distribution, without losing the "client touch"

In 2015, we started the selection process for the AFD project and conducted due diligence on a range of partners in Côte d'Ivoire, Senegal, Ghana, Burkina Faso, Mali, Nigeria, Ghana, Tanzania, Ethiopia and Zambia. Potential partners include insurers, government agencies, commercial banks, microfinance institutions, agricultural providers, technology providers and intermediaries.

The final partners that the Facility will work with were selected in early 2016 and the projects have begun by the third quarter of the year. The list of projects can be found in the following link: <http://www.impactinsurance.org/partner/afd>

b. Partnership to achieve impact insurance through change MANAGEMENT

To enhance the impact of the insurance industry, and successfully meet the risk management needs of low-income households and small and medium enterprises (SMEs), insurers need to innovate and develop client-centric products and processes that are cost-effective and viable in the long-term. This is rarely possible without substantial changes to business models, operating procedures or internal structures. Having supported innovations with over 60 organizations, we have seen that organizations often need to go through a systematic change management process to get ready to serve the low-income market effectively.

The Facility launched a new partnership with Financial Sector Deepening Africa (FSDA) to work with five insurers and distributors to implement organizational change management and product innovation. Activities include:

- Spurring innovation, building capacity and identifying and implementing the necessary organizational changes
- Working with providers to scale the innovations quickly to achieve sustainability, while gradually improving customer and shareholder value
- Developing change management tools and demonstration cases that can be shared with the broader industry to facilitate the generation of innovative insurance solutions for the low-income market

The final partners that the facility will work with on change management can be found in the following link: <http://www.impactinsurance.org/partner/fsda>

c. Managing vibrant communities of practice

The two new communities of practice for agriculture insurance that we established at the end of 2014 went into full swing in 2015, with a number of knowledge-sharing activities successfully organized.

The Facility gathered more than 40 members of the Global Action Network (GAN) on Agriculture Insurance, a community of experts supported by USAID/BASIS/ I4 Initiative, in three working groups to discuss key issues in agricultural insurance. The Working Group on Contract Design focused on a broader discussion of client value that looks at the quality of index insurance products instead of just the narrow definition of basis risk. The Working Group on Risk Pricing explored the need for and possible design of a public reinsurance facility. The Working Group on Market Development examined the strengths and weaknesses of various distribution channels, and discussed training gaps in agriculture insurance. It decided to focus its work on two operational issues in index insurance: bundling with financial and non-financial services, and consumer education. All working groups continued to develop specific guidelines, which are being tested with several practitioners and will be available to the broader community in 2016.

A peer-exchange activity was organized for core members of the Index Insurance Forum (IIF), a community of practitioners in index insurance co-facilitated by the Facility and the World Bank Group's GIIF. This experiential learning exercise brought together almost 30 index insurance practitioners from a dozen countries to understand the operations of Sri Lankan insurer SANASA Insurance Company Ltd. and using the PACE tool to assess and provide recommendations on how it can improve its client value. The visit to Sri Lanka provided an opportunity for all the organizations to share their experiences in providing index insurance, and to learn from the hosts as well as their peers.

To increase the impact of our work and use the strengths of the two communities more effectively, we defined complementarities and organized joint activities among the two communities. One such activity was the Joint IIF–GAN knowledge-sharing forum “Assessing value from index insurance products”, which was organized as a post-conference session to the Global Index Insurance Conference organized by the World Bank Group, with the Facility as co-organizer. The forum, which attracted 70 participants, looked at a yield index insurance product from PlaNet Guarantee and discussed the application of two client value assessment methodologies to the product. This served as a starting point in discussing a comprehensive framework and set of indicators that can be used to assess client value from index insurance. Work on a comprehensive framework is currently being pursued by the GAN, and will later be tested by members of the IIF, so that a relevant framework can be finalized and recommended to the rest of industry.