

round 1
MARCH 2008

What is microinsurance?

Microinsurance is a mechanism to protect low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. This definition is essentially the same as one might use for regular insurance except for the clearly prescribed target market: low-income people. How poor do people have to be for their insurance protection to be considered "micro"? The answer varies by country, but the Facility is generally interested in coverage for persons who are not presently served or are underserved by mainstream commercial and social insurance schemes. Of particular interest for the ILO is the protection of persons working in the informal economy.

What problems does the Facility try to solve?

While there are many challenges in extending insurance to the working poor, we are particularly focused on **three themes**: improved products, models and consumer education.

1. **Products.** The poor are more vulnerable to risks than the rest of the population, and yet they are the least able to cope when crises occur. One way for them to protect themselves could be through insurance. Yet few have coverage, and where they do have access to insurance, the products do not usually provide good value, or they do not cover the risks that concern the poor the most. The Facility will encourage more affordable products with greater coverage to serve a wider range of risks with better service.

This notion of "product" is broader than just the price, benefits and terms; it includes the processes involved in managing the product. In that context, challenges include managing huge volumes of small policies, collecting premiums from people without bank accounts, verifying and paying small claims, as well as controlling moral hazard and fraud.

2. **Models.** There are various institutional options for providing microinsurance, but they all have some limitations. The Facility will support new models and encourage partnerships to leverage the strengths and overcome the shortcomings of present options. We are looking for institutional solutions that are efficient, that provide relevant and affordable coverage to the low-income market, while finding an appropriate balance between the interests of policyholders, delivery channels and risk carriers.
3. **Consumer education.** Few providers have effectively educated the target market about the benefits of microinsurance. Consequently, the poor often do not understand how insurance works or under what circumstances insurance is a preferred risk management tool vis-à-vis savings or credit. Their acceptance of insurance is further limited by short-term planning horizons, suspicion of insurers' motives and a belief that insurance is only for the rich. In addition, the lack of transparency around pricing and benefits makes it very difficult for consumers to make sound purchasing decisions. We want to make insurance more accessible to the poor – not just physically and economically accessible, but also intellectually.

The Facility strives to encourage insurance experts to apply their skills to solving these three microinsurance challenges. We intend to test the extent to which the working poor can benefit from insurance while still ensuring the viability of the provider. The Facility also wants to support efforts to maximize the efficiency of delivering microinsurance. We are optimistic that new technologies and streamlined processes will enable greater efficiency, for the clients and institutions, and thus dramatically enhance the risk management abilities of the working poor.

Innovation Grant Application Guidelines

The Microinsurance Innovation Facility, a partnership between the International Labour Organization (ILO) and the Bill & Melinda Gates Foundation, will help promote decent work for millions of low-income people in developing countries. To support the emergence of valuable insurance coverage to protect the working poor, over the next five years (2008 to 2012) the Facility will engage in four sets of activities:

1. Offer **innovation grants** to stimulate new ideas and test new approaches to providing better products to un- and under- served markets
2. Create a market for **technical assistance** (TA) by supporting the development of TA providers while at the same time co-financing the demand
3. Conduct **research** to analyze the impact that insurance has on the risk-managing capacity of poor men and women, and identify models of success
4. **Disseminate lessons** learned among key stakeholders

What is innovation?

Innovation may involve borrowing ideas from other domains or regions to do something new at home. Innovation may be incremental, creating a small improvement at the margins; or it may be radical, a riskier effort with a higher potential return.

Of course, the intention is not to support innovation for innovation's sake. Innovation must be designed to achieve something beneficial. In sum, innovation involves taking risks, venturing into uncharted territory in the hope of creating something better.

The Microinsurance Innovation Facility's **primary objective is to learn**: to learn how to provide better insurance coverage to more low-income people, to learn how to develop an insurance culture among the poor, and to understand the extent to which the working poor can benefit from insurance as a risk management tool.

To achieve this learning objective, the Facility will support activities that challenge the conventional wisdom. The innovation grants are therefore seen as **action research**, dynamic efforts to introduce new products, processes or models, or improve on existing ones, or take successful products/models to new markets. Such initiatives could be done on an experimental basis—for example, undertaken with some clients, but not with others—to assess their effectiveness or impact.

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the Facility will issue 40 to 50
innovation grants for a total of
US\$18 million

Examples of possible microinsurance innovations

Valuable insurance products

- Pilot test innovative products, or improve existing ones, that respond to the risk-management needs of low-income households
- Create new mechanisms for premium collection to enhance efficiency
- Test new approaches to streamline claims verification
- Use technology to develop products that can be customized to individual needs
- Introduce techniques to make insurance more affordable for poorer households
- Rollout a successful pilot into new markets to reach huge volumes of low-income households

Institutional models

- Experiment with new delivery channels and alliances between different actors
- Involve specialized administrators to ensure each party excels at its respective function
- Improve information systems to strengthen the relationship between risk carrier and delivery channel
- Support the creation of a specialized microinsurance company or subsidiary
- Assist a federation of community-based or mutual schemes to create its own regulated risk carrier
- Experiment with Takaful insurance for the low-income market in Muslim regions
- Develop a hybrid model that would enable community groups to formalize their insurance scheme without creating a regulated insurance company
- Facilitate linkages between microinsurance schemes and social protection systems to include a redistributive element to cover the most vulnerable

Market education

- Adapt and test consumer education materials
- Test different methodologies for communicating key messages about risk management (not just about insurance)
- Develop sustainable country-level mechanisms that provide quality education and ongoing facilitation to build insurance culture on a mass scale
- Experiment with ways to integrate basic education into product delivery
- Develop and implement an innovative marketing campaign to overcome the natural resistance to insurance that is found among low-income households

Who is eligible for innovation grants?

Organizations eligible for grants include:

- **Risk carriers** such as insurance companies, semi-formal microinsurers, or federations of microinsurance schemes
- **Delivery channels** including NGOs, cooperatives, banks and microfinance institutions, labour unions and employers' associations, insurance brokers and agents, and other distribution channels
- **Suppliers to the insurance industry** such as third-party administrators or claims processing centres, providers of software and database management services, training centres or industry associations

It is possible—even encouraged—for two or more eligible organizations to apply for a grant together. To meet the challenges associated with institutional models (the second theme discussed above), the Facility is especially interested in supporting collaborations between different types of entities.

The Facility wants to work with strong organizations that have internal control systems and the capacity to produce financial statements. Organizations or consortia with a track record of success are welcome to propose ambitious projects that will enable them to significantly increase their outreach, while organizations that are relatively new to microinsurance are encouraged to consider pilot activities.

We are looking for a diverse portfolio of grantees across the developing world, with a focus on Africa, Asia, Latin America and the Middle East. Although these grants could support insurance for any type of risk, priority will be given to voluntary products for which there is a significant demand yet insufficient supply, including health, agriculture, property, and accumulating value life or disability products.

What kind of grants are available?

Over the next five years, the Facility will issue 40 to 50 innovation grants for a total of US\$18 million. In this round of applications, the ILO expects to issue 7 to 12 grants for one to three years. Organizations that are new to microinsurance should apply for smaller grants, while organizations with track records of success could be eligible for larger amounts.

The grants are intended to cover a portion of the costs to implement the innovation. The grant could also be used to offset some of the losses that a product is likely to incur before it achieves sufficient scale, or for the start-up costs associated with creating a new institutional entity. The grant should not subsidize the organization's general operations, but rather should be targeted toward a particular project, which could be new or already underway.

These grants are intended to support investments in innovative initiatives and pilot activities, efforts that the applicants believe will be successful but they are not able to undertake without the backing of a partner. The proposed project should be designed so that it will be viable at the end of the grant period, either because it is self-sustaining or because additional resources are identified to continue the operations.

For all initiatives, applicants are expected to **contribute at least 25 percent** of the total cost of the project. Fees generated by services offered through the project cannot serve as counterpart contributions. In-kind contributions might be considered from non-profit applicants.

What does the Facility expect from grantees?

To receive grants, applicants must sign a Standard Grant Agreement with the ILO, which includes clauses on intellectual property rights, financial reporting requirements, criteria for the disbursement of funds, dispute resolution, and details of the proposed project implementation. Naturally, grantees would be expected to comply with the terms and conditions stipulated in the agreement.

A central purpose of the Facility is to document and disseminate lessons learned. Grant recipients will be expected to participate in the analysis and documentation process to capture the lessons from their innovative efforts. This process includes providing financial reports and regular updates of the project, and allowing the ILO's researchers and consultants on site to collect data and conduct studies. Grantees would also be expected to actively participate in practitioner learning forums, both virtual and in person, to share their experiences with other grant recipients as well as those interested in learning about microinsurance.

Grants will be issued in tranches; for grantees to be eligible for subsequent instalments, they must achieve the mutually agreed targets or milestones and be diligent about submitting timely reports.

What is the application and selection process?

1. Application forms are available on www.ilo.org/socialfinance.
2. Applicants submit their applications to microinsurance@ilo.org by 16 May 2008.
3. The Facility may request additional information or clarifications.
4. An independent committee will review the proposals and select those that best meet the selection criteria (see below).
5. Selected applicants will be notified by 7 July 2008.
6. Before signing a grant agreement with the ILO, organizations will have four weeks to produce a detailed work plan and budget that will form the basis for the milestones that need to be achieved. Final approval will be subject to the satisfactory completion of these plans.

For applicants requesting a grant exceeding US\$500,000, a more thorough analysis will be required, including a site visit, and therefore the finalization of the grant agreement could take three months or longer.

If the grant application is on behalf of a **consortium**, one organization should be identified as the lead applicant and would serve as the ILO's primary contact. Section 1 in the grant application should be completed for all members of the consortium, but the lead agency would assume responsibility for the grant.

Applicants not selected by the committee may be eligible for a **technical assistance grant**, which would enable them to purchase the services of a (micro)insurance expert. The technical assistance may assist applicants to refine their approach and strengthen their application for an innovation grant in the future.

The **next round of grant applications** will be announced in August for submissions at the end of September. Subsequent rounds will continue every six months until 2010. Eligibility criteria and application processes may be adjusted in subsequent rounds.

Applications will be evaluated based on the following criteria, where applicable. The Facility will prioritize applications that maximize benefits to clients.

Client/market issues

- Will the proposed innovation reduce the vulnerability of low-income households?
- Does the application consider the needs, preferences and characteristics of the target market?
- Does the innovation have the potential to serve a large number of people?
- Does the proposal ensure that clients understand what they are buying?

Viable project idea

- Does the project aim at financial viability?
- Does the concept seem achievable?
- Is the proposed project not prohibited by the regulatory environment?
- Are there strategies to reduce overhead costs, increase productivity and improve the long-term viability of the scheme?
- Is the budget appropriate for the proposed activities?

Capable applicant

- Does the applicant have the capacity, technical expertise and commitment to handle this project?
- Does the applicant have appropriate accounting systems, internal controls and external audits?
- Can the applicant generate appropriate financial reports?
- Will the applicant provide at least 25% co-financing?
- In the case of a consortium, are the organizations likely to collaborate effectively?

Strategic relevance

- Does the application fit into at least one of the Facility's three themes (i.e. products, models and consumer education)?
- Does it propose to do something innovative?
- Will the initiative create value added for the poor and the participating organizations?
- If it succeeds, will it be replicable?
- Is the applicant open to sharing what it has learned?
- Is an innovation grant really needed? Will it leverage additional investments?
- Does this proposal contribute to a diverse pool of grantees?

What are the selection criteria?

contact

FOR MORE INFORMATION
SEE: www.ilo.org/socialfinance
or
EMAIL: microinsurance@ilo.org



About the ILO

The International Labour Organization is a specialized UN agency that promotes social justice and decent work for all. With workers and employers participating as equal partners with governments in its governing organs, the ILO formulates international labour standards such as freedom of association, the right to organize, collective bargaining, abolition of forced labour and equality of opportunity. The ILO's interest in microinsurance comes from two perspectives. On the one hand, microinsurance is a means through which social protection can be extended to excluded populations, such as workers in the informal economy. On the other hand, the ILO is concerned about the social effects of the financial market, which often excludes the working poor who only have their labour as capital. Consequently, for the ILO, microinsurance enhances access to social protection and promotes inclusive and equitable insurance markets.

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Microinsurance Innovation Grant Application Form

To be considered for funding, grant applications must be submitted via email to the Microinsurance Innovation Facility at microinsurance@ilo.org by 16 May 2008.

1. Applicant information

Consortium applicant? Please check one: Yes No

If yes, please submit a completed Section 1 for each consortium member, and identify which member is the lead applicant.

1.1 Applicant name (e.g. name of company)

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1.2 Name of CEO or General Manager

.....

1.3 Name and title of contact person, if different than CEO

.....

1.4 Telephone number, including country code

.....

1.5 Fax number, including country code

.....

1.6 Email

.....

1.7 Website

.....

1.8 Mailing address, including country and postal code

.....

1.9 Legal structure (e.g. for-profit corporation, NGO, community association)

.....

1.10 Purpose, mission or objectives of your organization

.....

1.11 Brief description of primary business activity (e.g. life insurance, labour union, agricultural cooperative)

.....

1.12 Start date of operations

.....

1.13 Start date of microinsurance activity, if any

.....

1.14 How did you hear about this request for grant applications?

.....

2. Project overview

- 2.1 Project name
.....
- 2.2 Brief description of the project (100 words or less)
.....
- 2.3 Project start date (Note: grants could be for new or existing projects)
.....
- 2.4 Country or countries where the project will take place
.....
- 2.5 Proposed total budget (in US\$)
.....
- 2.6 Proposed amount of grant requested (in US\$) (Note: this cannot exceed 75% of the total budget)
.....
- 2.7 Duration of the grant (1 to 3 years) and end date of proposed project
.....
- 2.8 Expected number of direct and indirect beneficiaries of the innovation
.....

3. Project description (limited to 5 pages)

- 3.1 Why is this project being proposed? Include a problem statement and justify why an innovation grant is needed.
- 3.2 Describe the scope and approach to be undertaken within this proposed project. How will the activity address the problem(s) identified above?
- 3.3 What is the target market of the proposed project? What are the characteristics of this market?
- 3.4 What innovative or ground-breaking features are proposed within this project?
- 3.5 Describe the expected impact of the proposed project on low-income households, including quantitative measures where possible (e.g. increase the number of persons covered by x%, reduce premiums by y%, pay claims z% faster).
- 3.6 Describe how the proposed project would benefit the applicant(s), including quantitative measures where possible (e.g. improve member retention by x%, enhance efficiency by y%, reduce fraud by z%).
- 3.7 What are the main risks associated with the proposed project (e.g. regulations, competing initiatives, limited capacity), and how will they be mitigated or addressed?
- 3.8 Explain the capabilities of the applicant(s) to make this proposed project a success. Have similar projects been implemented before? If so, please describe the experiences and outcomes.

4. Annexes

Annex 1. Budget
Provide a budget (in US\$) of expenditures and funding over the duration of the proposed project. Budget categories should correspond to your organization's accounting system. Indicate date(s) and frequency of when grant funding would be required (e.g. in annual instalments, beginning 1 November 2008).

Annex 2. Financial model
Our priority is to fund projects that maximize access and minimize costs for low-income households. Provide an illustrative cash flow statement for the project showing the financial costs and benefits for the applicant and its clients. Illustrate how the project will be sustained once the grant funds are spent. Note: A financial model may not be applicable for all proposed projects (e.g. if the project does not generate revenue).

Annex 3. Resumes
Provide resumes or brief biographies of key personnel.

Annex 4. Annual report and financial statements
Attach annual reports and/or financial statements for the past three years (if available).