micro Insurance Innovation facility

International Labour Organization

RESEARCH STRATEGY

2008-2012

October 2008

PROTECTING THE WORKING POOR

CONTENTS

SECTION A) BACKGROUND

Housed at the International Labour Organization's Social Finance Programme, the Microinsurance Innovation Facility seeks to increase the availability of quality insurance for the developing world's low-income families to help them guard against risk and overcome poverty. The Facility was launched in 2008 with the support of a grant from the Bill & Melinda Gates Foundation. Over the next five years, the Facility will provide innovation grants, fund technical assistance, conduct research and disseminate information to enable insurance products and delivery models to provide better protection to the working poor.

Research on this topic undertaken thus far concludes that microinsurance is a work in progress, and much more progress is required to really provide value to poor households. Therefore, the Facility's research programme has an important role to play to consolidate existing knowledge and stimulate new learning to move the microinsurance agenda forward.

To fulfil our ambitious research agenda, the Facility collaborates with an academic consortium – the European Development Research Network (EUDN - www.eudnet.net). The EUDN links members of different development research institutions, particularly in the field of development economics, from Europe with the rest of the world. EUDN research fellows have an extensive background in investigating risks, poverty and vulnerability issues in developing countries.

This paper presents the Facility's research strategy. The research strategy has been developed in a participatory process involving various microinsurance industry stakeholders. This resulted in an inclusive research agenda satisfying different needs and perspectives. Key milestones included:

- Interviews with various stakeholders to gather their feedback on key burning issues in microinsurance – Christina Barrineau (Financial Access Initiative), Ralf Radermacher (Microinsurance Academy, India), Ashok S. Rai (Williams College), Michael J. McCord (MicroInsurance Centre), Monique Cohen and Liz McGuiness (Microfinance Opportunities), Gaby Ramm (GTZ), Koko Warner (UN University), Michael Carter (University of Wisconsin), Denis Garand (consultant), Richard Leftley (Microinsurance Agency), Brandon Mathews (Zurich Financial Services), Christian Jacquier, Valerie Schmitt-Diabate (ILO STEP), Pauline Barrett, Philippe Marcadent, Krzysztof Hagemejer (ILO Social Security Dept), Mark Wenner and Dieter Witkowski (IADB), Christina Blanchard-Horan (Social and Scientific Systems).
- Literature review by Stefan Dercon and Martina Kirchberger (Ofxord University) and concept note on research strategy prepared by EUDN (Stefan Dercon, Jan Willem Gunning (Free University of Amsterdam), Jean-Philippe Platteau (University of Namur).
- 2-day workshop to finalize the research strategy held with the EUDN academics (as above and Stephan Klasen (University of Göttingen)), other stakeholders (Gaby Ramm, Brandon Mathews, Valerie Schmitt-Diabate, Carla Henry (ILO Evaluation Unit), Bernd Balkenhol) and the Facility team. In-depth and useful comments on background documents were also provided by Monique Cohen, Ralf Radermacher and Rupalee Ruchismita (CIRM, India).

This paper outlines goals and objectives (Section 2), key research questions (Section 3) and mechanisms to generate new knowledge (Section 4). The last section suggests an operational plan for the research activities in 2008-2012.

SECTION B) GOALS AND OBJECTIVES

The main goal of the research programme is to **learn and document** how to improve risk-management options by providing better insurance coverage to large numbers of low-income persons. The Facility aims to use this new knowledge to **influence policy and practice** to push further the microinsurance frontier.

Other important considerations for the research strategy are the following:

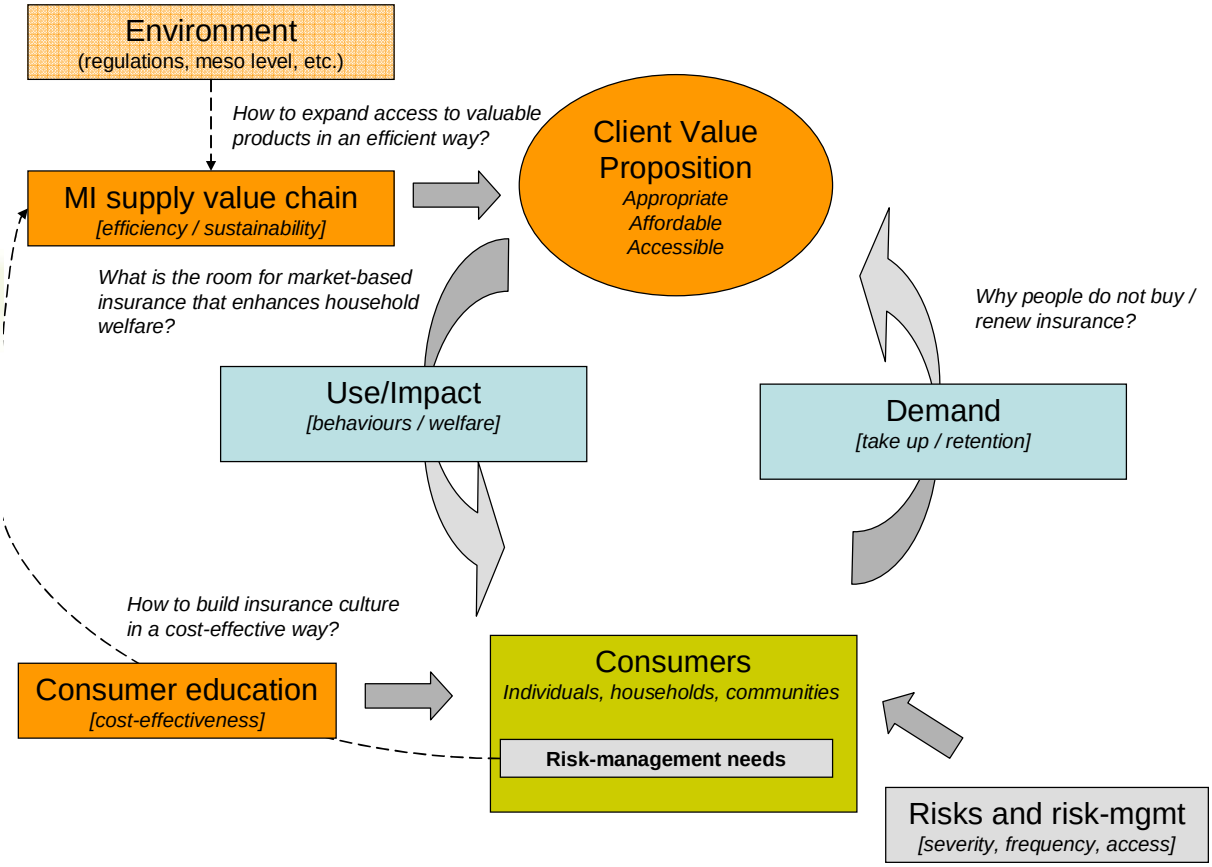
- **Demand driven**: The research strategy responds to key knowledge gaps of practitioners, donors and policy makers. It is not set in stone and should evolve according to their needs.[1]
- **Proving and improving**: The term 'research' is considered broadly including rigorous, academic research to influence policy as well as practitioner-based research to help understand and improve practice.
- **Adding value**: To avoid reinventing the wheel, the Facility draws on past and current research projects in the field and complements them to generate new knowledge.
- **Partnerships**: We welcome the opportunity to work with other organizations to stimulate industry learning and improve knowledge on microinsurance.
- **Integrated with other Facility functions**: The research programme maximizes the learning opportunities of the Facility's other activities. For example, the research agenda influences the selection of grantees to make sure that the proposed innovations respond to the key knowledge gaps. The research strategy is also integrated with the Facility's communication strategy.

SECTION C) RESEARCH QUESTIONS

The Facility's research agenda answers key knowledge gaps in the microinsurance industry. The research programme focuses on **assessing the potential benefits and the impact** that insurance has on reducing the vulnerability of low-income men and women to understand the extent to which the working poor can benefit from insurance as a risk management tool. In addition, the research programme aims to **identify good practices** in stimulating demand and building an insurance culture, as well as in providing valuable products through efficient and high-outreach institutional models. Last but not least, the research programme seeks to **understand why certain solutions work and why some do not work for both clients and providers.** In fact, a question 'why' is considered implicitly for each of the questions listed below.

The research agenda is divided into three main areas: 1) client value and impact, 2) demand, 3) supply as summarized in the figure below. Most of the research questions listed below are generic and concern different types of insurance (life, health, property, agriculture, etc.), especially in the client value, impact and demand sections. Given that health and agriculture insurance (including weather index insurance) are so different from other products and important for the poor, specific sections are included for both product categories under the supply section.

[1] Both research and communication strategies should take into account that there are different groups of practitioners – commercial insurers, microinsurers, delivery channels, consultants/experts – which will have different information needs. Moreover, as discussed in Section 3 at the policy level the Facility will aim to provide guidelines on the role of microinsurance (i.e. what are the right products for which groups under which circumstances) rather than generating new knowledge to influence other policy areas such as a regulatory framework, role of government, etc.



1. CLIENT VALUE AND IMPACT

Client value (Q1.1), behaviours (Q1.2) and welfare impacts (Q1.3-Q1.5) constitute important elements of the "impact pathway" (input -> outcome -> impact). Understanding what is the potential client value and how impacts take place are critical to designing effective polices and practices. In brief, this section asks a broader question on the role of microinsurance: *What is the room for market-based insurance that enhances household welfare?*

Note: most of the research questions in this section concern both clients and non-clients and require an understanding of risks, risk-management mechanisms in use and their effects on households, individuals and communities. The analysis of risk-management needs is incorporated in all of the above impact considerations Q1.1-Q1.5.

1.1. Client value

a. To what extent are clients *satisfied with current microinsurance products*? What do they value? What product attributes are the most important for them and why?

b. What is the *client value* (potential benefit) of different microinsurance products for different groups in different contexts? For which risks and for whom can microinsurance provide better value in terms of appropriateness (demanded protection coverage), affordability (total costs) and accessibility (simplicity, physical access, convenience) compared to or in combination with other risk-management mechanisms (including credit, savings, insurance, informal schemes, safety nets, social security)?

c. What are the *access frontiers* for different types of risks/products? How deep can a market-based insurance scheme reach? To what extent can microinsurance enhance value of basic social security packages (health care, maternity, pensions, unemployment benefits) for low-income households?

1.2. Usage and outcomes

a. To what extent do low-income households adopt more efficient risk-management strategies when they start using microinsurance?
b. How do consumers use insurance payouts (especially for life insurance)?
c. To what extent does having insurance coverage promote undertaking higher-risk, more productive economic activities?
d. To what extent does health insurance contribute to more efficient health seeking behaviours (e.g. more prevention, regular check-ups, seeking health care earlier than before)?

1.3. Overall impact on household welfare

a. Are persons protected by insurance better able to manage risks and break the poverty cycle than persons without insurance? (broader welfare outcomes - income, nutrition, wealth, well being; and costs of insurance - premiums, transaction costs, quality of service delivery)

1.4. Unpacking the impacts

a. Which segments of low-income households benefit the most (including comparing benefits for poorer and better off clients in the same risk pool)?
b. What are the intra-household dynamics? How does insurance impact women, men, other household members?
c. How do they benefit? For example, is it through more efficient behaviours, stronger asset or human capital position or more asset accumulation?
d. Direct versus indirect impact: Are there any externalities at the community level? For example, regarding access to health care for poorer non-clients, access to and quality of health care, crowding out informal schemes (leaving some less protected than before), better risk awareness, more employment, expansion of credit markets.

1.5. Relative impacts

a. What is the best product for particular risks in particular circumstances? For example, for a specific risk: products with low protection and lower premiums, compared to higher premium higher protection products.
b. What is the impact of single versus composite products? For example, a combined health and agriculture insurance product, which would pay out with higher probability compared to each single product, compared to health insurance alone.
c. What is the impact of stand alone versus bundled products, mandatory versus voluntary products?
d. What is the impact of insurance versus other complementary financial services with risk-management functions (savings, emergency credit, etc.) and safety nets (including social security, cash transfers, etc.)?

2. DEMAND

Key indicators for demand analysis are the uptake of insurance products and client retention. The main question is: *why do people not buy/renew insurance?* Sections Q2.2, Q2.3, Q2.4 go in-depth into three key factors potentially responsible for low demand. Section Q2.1 provides some more background, a necessary market intelligence to penetrate low-income markets.

2.1. Market size and segmentation

a. What is the size of the potential market in specific contexts and expected take up rate (cf. q1.1 - access frontiers)?
b. How does one segment the market to gain necessary market intelligence (by socio-demographics, psychographics, vulnerability, insurance literacy and usage, etc.)?
c. Who decides to buy insurance (gender)?

2.2. Trust

a. Why do consumers not trust the concept of insurance and insurance providers?
b. How to build trust?

2.3. Insurance literacy

a. How do households understand risks and relate to insurance concepts in different cultural settings?
b. What are the most important gaps in insurance literacy - knowledge (understanding of concepts), skills (being able to use insurance for effective risk-management), attitudes (opinions, culture and self-confidence)?

2.4. Capacity to pay and price sensitivity

a. What is a realistic budget for insurance for different households by income level?
b. What is price sensitivity of the market? To what extent do consumers react to changes in price?

3. SUPPLY

The key indicators for a supply analysis are efficiency and outreach. The main question is: *How to expand access to valuable products in an efficient way?* Section on the supply-value chain (Q3.1) is key from the practitioners' point of view. Given its importance, 'technology' is considered in a separate section (Q3.2) but the analysis should be linked to the supply value chain considerations. Sections Q3.3 and Q3.4 treat two burning supply questions providing value for both policy and practice. Finally, consumer education is considered as a supply question as well (Q3.5) because the challenges to provide it in a cost-effective and durable way are significant.

3.1. Supply value chain

a. How can providers improve efficiency of business processes to expand access to valuable products? Why do certain processes and solutions in the supply value chain presented below work and why do some not work? What are the costs in value chain and how can they be trimmed?
   - Getting the product right – acquiring and translating market intelligence into action

- Distribution (overcoming adverse selection / moral hazard and reaching large numbers)
  - Delivery channels – incentives and partnerships
  - Bundling insurance with other financial and non-financial products and services
  - Group vs individual schemes; Voluntary vs compulsory schemes
- Marketing / product awareness
- Sales, staff training and incentive systems
- Premium collection
- Claims administration
- Reinsurance

Note: some of the issues in the supply value chain are specific by type of product (health, life, property, agriculture). Health and agriculture insurance are described in more detail in Sections 3.6 and 3.7.

3.2. Technology

a. How can technology improve efficiencies in the supply value chain?
b. What are the costs and benefits of various solutions?

3.3. Delivery models and linkages

a. Which delivery models work best in specific contexts in terms of insurance uptake, sustainability and efficiency for providers, and the highest client value?
b. What are cost-effective linkages between market-based microinsurance and social security schemes?

3.4. Pricing, sustainability and the role of subsidies

a. How can providers overcome data limitations for actuarial pricing?
b. What is the rationale and role of subsidies? What are the potential detrimental effects on efficiency (cf. Q1 and Q2.1)

3.5. Consumer education

a. What is the right content to increase insurance literacy (selecting different elements from the continuum - general financial literacy, risk-management practices, insurance) (cf. Q2.3 - education needs)?
b. What is the best mix of channels to achieve high impact (campaigns, courses, counselling)?
c. Which stakeholders should pay for it / deliver it (government, industry associations, providers and their agents, NGOs) and how to create lasting delivery mechanisms?
d. How to combine health prevention education with insurance education in the case of health insurance?

3.6. Health insurance specifics

a. How to limit adverse selection for both comprehensive indemnity packages and defined benefit schemes?
b. What is the best use of co-payments and deductibles to limit moral hazard without undermining the demand for products and discouraging clients from seeking preventive health care?
c. What is the impact of exclusions on performance and client value?

d. How to reimburse health providers directly so that claims are cashless for policyholders?
e. How to reduce health claims costs, including prevention, negotiations with health care and pharmaceutical providers, and monitoring of health care providers' charges?
f. How to control the risk of fraud?
g. How can health insurers encourage greater use of, and improvements to, public health or government health care services?
h. What is the role of technology and Third Party Administrators in increasing efficiencies of the health insurance supply chain?

3.7. Weather index and other agriculture insurance specifics

a. How to build weather and other indexes to create transparent and efficient index insurance products? What are relevant triggers for crop products? How to reduce basis risk? What is the sufficient level of correlation between bad weather and bad crop yields? How to overcome the lack of historic weather data? What is the impact of climate change on the usefulness of historic data?
b. What is necessary weather infrastructure to collect the right data for index insurance? To what extent can local communities be involved in designing weather maps?
c. How to market index insurance products to ensure transparency and understanding by the market?
d. What is the impact of disaster relief or food aid on the market for index insurance?
e. Can index insurance be extended beyond farmers to ensure its sustainability and share its benefits with other groups?
f. How to reduce fraud and moral hazard in delivering livestock insurance?

Note: The Facility acknowledges the importance of an enabling environment and the various macro and meso level issues important for the success of microinsurance (e.g., role of government, regulation, consumer protection, conflict resolution – ombudsman, meso level support). There are other concrete initiatives dealing with these issues and the Facility has a comparative advantage focusing on provider level innovations, therefore the Facility's research programme will not investigate these issues in-depth.

SECTION D) RESEARCH MECHANISMS

Data will need to be collected from various sources (clients, households, providers, sector level, etc.) to respond to the questions presented above. The Facility acknowledges the trade-off between a need for credible evidence for donors and policy makers versus timely outputs that will be useful for practitioners. Therefore, the mix of research mechanisms should be able to respond to both demands. In other words, for some questions rigorous, longitudinal studies are necessary. For other questions practitioner-based research yielding timely results will be a better solution. As a rule of thumb, the Facility should promote the triangulation of data from different sources / research mechanisms when consolidating findings and using both qualitative and quantitative tools to make sure that there is sufficient understanding behind reliable figures. Various methodological questions for different areas of analysis are highlighted in Annex 1.

To assist in creating and documenting progress, the Facility will use five main research mechanisms: 1) action research with the Facility's innovation grantees, 2) longitudinal household impact studies, 3) research grants, 4) thematic studies, and 5) research partnerships.

1. ACTION RESEARCH PROGRAMME

Description

Action research is a recognised form of experimental research that aims to improve practice and is also very useful in generating innovations (see more in Annex 2). The Facility invites the innovation grantees to join its Action Research Programme (ARP).[2] This relationship is mutually beneficial. The partners develop their own learning agenda and an action research framework that allows them to learn more effectively to improve their performance. In principle, the innovations selected cover important items on the Facility's research agenda (presented above in Section 3). Therefore, the Facility is able to extract evidence from particular innovation projects. The Facility will follow up with in-depth reviews on some cases from the ARP in order to understand their mechanics and underlying success factors as well as to evaluate their replicability in other contexts. Moreover, assuming that some partners experiment in similar areas, it gives them a peer learning opportunity (which is by far the most effective way to learn) and also gives the Facility an opportunity to consolidate evidence from several cases on cross-cutting themes.[3]

Purpose and limitations

useful	not useful
The ARP by definition is geared to answer practical questions in a timely manner. Therefore, it can effectively support the 'improving' agenda. The ARP should cover most of the questions on supply value chain (Q3.1) and technology (Q3.2) The ARP might provide some information to address other supply questions (Q3.3-Q3.5) as well as some of the client value (Q1.1) and demand questions (Q2.2, Q2.4). For these areas, however, it will not be sufficient by itself and other research mechanisms should complete the analysis.	The ARP cannot address the impact questions due to a need for more rigorous, longitudinal and independent evaluations. It is also not very useful to respond to demand questions, for which there is a need to collect household data (beyond actual clients) which would not be a high priority for some practitioners.

Facility role

The Facility plans to be actively involved in managing the ARP. Its role can be summarized as follows:

- providing guidance and advice in the process of designing the learning agenda and action research framework, if possible, running the ARP kick-off workshops with individual partners,

[2] The Facility will also learn from the experience of the TA grantees. If relevant, some TA grantees might be invited to join the ARP.
[3] For example, 7 out of 10 first round grantees have technology components, 7 out of 10 work on consumer education, 2 of them bundle insurance with savings.

- identifying a learning coordinator – person in charge of monitoring learning process and consolidating lessons learnt,
- providing sample tools and technical advice to monitor institutional performance and to conduct client satisfaction studies as well as facilitating capacity building to implement them,
- monitoring learning processes on a quarterly basis with a help of the learning coordinator,
- facilitating final documentation,
- organizing global sharing experience events every year to facilitate peer learning amongst the innovation partners and to ease documentation of key lessons learnt on cross-cutting themes.

ARP processes are described in more detail in Annex 3.

Risks and success factors

Risks	Mitigation strategies
▪ Practitioners do not follow the action research framework, change important features of their schemes and learn in a chaotic way, making it impossible to extract reliable evidence. ▪ The only information source is staff feedback and there is no hard data to back up qualitative findings. ▪ Subjectivity of the analysis and findings ▪ Low quality of final analysis and write up (as this is more for the Facility than for the partners)	▪ Buy-in and senior management commitment – gained through participatory approach, giving peer learning opportunities and a visit of the Facility staff to run a kick-off workshop. ▪ Good design and monitoring of the implementation of the Action Research framework – ensured by identifying right people to serve as learning coordinators, kick-off workshop, facilitating building capacity and biyearly reporting to the Facility. ▪ Making sure practitioners monitor their performance, conduct costing of their MI products and run client satisfaction surveys. ▪ Contracting external consultants for final analysis and documentation.

Outputs

The ARP will be documented in:

- case studies (based on the experience of those partners that worked alone on specific issues and their work is relevant for other contexts),
- thematic studies on cross-cutting themes identified during the ARP (e.g. technology, education, claims administration, bundling products, etc.).

Another result of the ARP is strengthening a *community of practice*. The ARP partners will form a core group that will be expanded later on by other practitioners and experts. This might be a useful platform to strengthen the Facility's Technical Assistance Programme.

2. LONGITUDINAL HOUSEHOLD IMPACT STUDIES

Description

The Facility plans to conduct 4-6 longitudinal household impact studies to provide reliable evidence on the impact of microinsurance on the vulnerability of low-income households. By nature, these studies should consist of at least two points of data collection (baseline and endline). Depending on the product in question, the time needed to complete these studies will be from 3-5 years (shorter for high-frequency products, and longer for low frequency (life) products)[4]. The impact studies should be carefully designed and incorporate all the methodological issues listed in Annex 1.

The longitudinal studies will be conducted in cooperation with selected innovation grantees because of the existing relationship, the exciting research opportunities with innovative schemes, and the possibility to collect baseline data as some projects have not yet rolled out their products.

The longitudinal studies are not expected to provide comprehensive knowledge on all the aspects of the impact of microinsurance. They are rather thought to add some new evidence to the growing literature on impact in the areas that other research has not explored. The Facility has a competitive advantage in exploring 'relative impact' questions summarized in Q1.5 due to the nature of the funded innovations. The Facility and the EUDN will identify innovative schemes providing opportunities to respond to the 'relative impact' questions. Other important factors in determining selection of candidates for impact studies are: a) possibility to control roll-out of product to different areas to be able to create control groups and b) context of intervention that is not very unique so that results might be generalized for other settings.

Purpose and limitations

useful	not useful
relative impact (Q1.5) as well as overall impact (Q1.3) and unpacking impacts (Q1.4) to a certain extent, might be useful for other questions for which there is a need for client level information (Q1.1, Q1.2, Q2) and for those supply questions that need more comprehensive information (Q3.3, Q3.4). Baseline data can be reanalyzed to respond to some demand questions (Q2.1).	for those questions that need more timely information, mostly on supply side (Q3.1, Q3.2, Q3.5)

Facility role

The Facility outsources the impact studies to the EUDN (or other academics in consultation with EUDN) that has all the necessary competences to deliver them and is an independent body having a more objective view on microinsurance. Another reason to get the EUDN involved is that some of the studies may go beyond the Facility's current 5-year term, thus it

[4] The period will not be long enough for some products (endowment or whole life), which would have to be excluded from the analysis.

is important that ownership of the documentation and dissemination process is placed with another party.

The Facility's role is limited to:

- identifying good candidates among innovation partners and bridging the relationship with EUDN,
- ensuring that the study design responds to the Facility's research agenda (Section 3),
- facilitating usage of baseline data to respond to other research questions,
- if necessary, repackaging impact study reports and papers for other stakeholders,
- raising additional funds to complete the impact studies.

Risks and success factors

Risks	Mitigation strategies
▪ credibility of results ▪ usefulness of results for wider audience beyond academic circles ▪ commitment of innovation partners	▪ involvement of EUDN to deliver credible results ▪ involvement of the Facility to repackage and widely disseminate knowledge ▪ participatory process of designing the study to be able to respond to some of the partners' questions (i.e. relating to market size and demand).

Outputs

The impact studies will be documented in working papers (both baseline and final reports) and academic papers as well as be repackaged and summarized for other stakeholders in briefing notes.

A book published jointly by EUDN and the Facility featuring the most interesting papers from impact studies and research grants will definitely add value for dissemination of findings.

3. RESEARCH GRANTS

Description

Over the next four years the Facility will offer 40 small research grants (10,000 USD) for academics mostly in developing countries for focused research initiatives. The research grants are intended to respond to the Facility's research agenda, especially to those questions that are not sufficiently covered by the ARP and the impact studies. The research grants are also intended to increase the supply of knowledgeable microinsurance experts and promote microinsurance in academic circles.

The Facility and the EUDN will announce four rounds of research grants and provide guidelines for applicants featuring a more focused research agenda. A committee, composed of four senior EUDN researchers, will select grantees in consultation with the Facility according to pre-defined selection criteria. The selected researchers will have one year to complete their projects and will have access to EUDN resource persons, who will be also responsible for monitoring the quality of research design and outputs.

The research activities do not necessarily need to be linked to innovation partners. The study design and appropriateness in responding to the Facility research agenda are definitely more important selection criteria. However, the links with practitioners will be promoted to make sure that the results will have immediate implications to improve practice.

Purpose and limitations

useful	not useful
might be useful to contribute to evidence on all the demand questions (Q2), client value (Q1.1) and outcome evaluations (Q1.2) as well as some supply questions (Q3.3-Q3.5).	to respond to more comprehensive impact questions (Q1.3-Q1.5) and practical supply value chain questions (Q3.1-Q3.2)

Facility role

The Facility outsources management of the research grants to the EUDN which is better positioned to manage them (both coordination by the EUDN project manager and advisory by the EUDN senior researchers).

The Facility role is limited to:

- participating in the grant selection process,
- ensuring that selected projects respond to the Facility research agenda (Section 3),
- disbursing research grants,
- if necessary, repackaging study reports and papers for other stakeholders.

Risks and success factors

Risks	Mitigation strategies
▪ low interest and low quality of outputs given small grant amounts ▪ research does not generate new knowledge but confirms what we already know	▪ strong dissemination of the research grant announcement through different research networks (global and regional) to tap into large numbers of potential researchers from different contexts ▪ mentoring by EUDN resource persons ▪ if necessary, changing strategy to provide fewer grants with bigger amounts (after year 1) ▪ ensuring that the agenda for research grants is more focused than the Facility research agenda, thus allowing to fill more effectively existing gaps.

Outputs

Research grant projects will be documented in working papers, academic papers as well as repackaged and summarized for other stakeholders in briefing notes.

4. THEMATIC STUDIES

Description

Thematic studies will be initiated by the Facility to investigate burning issues and fill important knowledge gaps not covered by other research mechanisms. Their objective is twofold:

- To provide background information, take stock on specific unexplored issues to inform directions for future investigation using other research mechanisms. Some of the areas identified for exploratory thematic studies include: providing guidelines on the use of technology, taking stock on consumer education best practices, taking stock on specific supply value chain aspects in health insurance, and conceptualizing client value analysis.
- To underpin existing knowledge, summarize evidence coming from other research mechanisms and other research initiatives in microinsurance. Thematic studies will be particularly useful in the areas in which lots of information will be generated using different research mechanisms, i.e. some demand questions (Q2.2-Q2.4) and supply questions (Q3.3-Q3.7).

In addition, a landscaping study will be commissioned in the last year of the Facility term to track progress of microinsurance development (compared to the study conducted in 2007 by the Microinsurance Centre).

As a rule of thumb thematic studies will be conducted by external consultants / researchers and will use mostly secondary data and if necessary study visits to selected partners.

Purpose and limitations

useful	not useful
To explore Q1.1, Q3.2, Q3.5-Q3.7 and summarize Q2.2-Q2.4 and Q3.3-Q3.7	for any in-depth research for which there is a need for primary data

Facility role

The Facility plans to be actively involved in managing the thematic studies. Our role is as follows:

- Identify themes through a participatory process
- Identify partners to cooperate on specific themes
- Commission studies and take active part in study design
- Identify consultants and facilitate study implementation
- Finalize documentation

Risks and success factors

Risks	Mitigation strategies
▪ Bad selection of key themes, thus research does not stimulate progress	▪ Themes should be identified in a participatory way and if possible, be conducted in partnerships with other microinsurance stakeholders ▪ Themes aligned with the Facility research agenda

Outputs

The thematic studies will be documented in working papers and briefing notes summarizing key findings and recommendations.

5. RESEARCH PARTNERSHIPS

The Facility is open to any partnerships to collaborate on burning questions in microinsurance. Monitoring other research initiatives ensures added value of the Facility's research. And it is also another important research mechanism that can help to provide more evidence and fill gaps not covered by other activities. Partnerships can take different forms, including co-funding, exchanging on research methodologies, sharing database and preliminary results.

Most of the existing research initiatives in microinsurance are summarized in Annex 4. The Facility will explore collaboration opportunities, monitor new initiatives and liaise with like-minded programs on the ongoing basis.

SECTION E) OPERATIONALIZING THE STRATEGY

This section presents a summary of some key considerations with regards to the operationalization of the Facility's research strategy

Matching questions with mechanisms

The table below summarizes advantages of different research mechanisms to cover the identified questions:

- A – means that given research vehicle can satisfactorily cover most of the issues in the specific area, the wealth of knowledge from this vehicle is enough to draw interesting conclusions;
- b – means that given research mechanisms can contribute some useful evidence in this area, but in itself might be not sufficient to draw reliable lessons learnt.

This table helps to identify the focus for specific research vehicles (avoiding situations when some research mechanisms are used to respond to questions they are not geared to, i.e. practitioners assessing impact of their interventions). It also helps to identify priorities for research grants, thematic studies and (to certain extent) partnerships - the mechanisms that should fill the gaps not covered by the ARP and impact studies.

In principle, wherever there is 'A' or lots of 'b' in one row it is likely that enough evidence will be generated by the Facility or its partners to respond to the research question in a holistic way. This analysis provides the following insights for the Facility's research strategy:

- Most of the impact questions (Q1.2-Q1.5) can be only covered if the longitudinal studies are conducted.
- There is no specific vehicle that can cost-effectively cover the demand questions. This is due in part to the limited capacities of practitioners to research their markets. The envisioned solution would be to use the client/household data generated by the longitudinal studies and channel many of the research grants into projects exploring demand issues.
- ARP is the main vehicle to provide timely practical inputs so sufficient resources should be allocated to mitigate the identified risks.

- Thematic studies will be instrumental to generate some knowledge on supply questions and explore client value and consumer education areas.
- Existing opportunities for research partnerships will be instrumental for impact and market size questions. More research partnerships should be identified to tackle the rest of demand and consumer education areas.

Research questions	Research mechanisms				
	Action research	Longitudinal studies	Research grants	Thematic studies	Research partnerships
1.1 client value	b	b	b	b	b
1.2 outcomes		A	b		b
1.3 overall impact		A			b
1.4 unpacking impacts		A			b
1.5 relative impact		A			b
2.1 market		b	b		b
2.2 trust	b	b	b	b	
2.3 literacy		b	b		
2.4 capacity to pay, price	b	b	b		
3.1 supply value chain	A				
3.2 technology	A			b	
3.3 delivery models	b	b	b	b	b
3.4 pricing	b	b	b	b	b
3.5 consumer education	b		b	b	
3.6 health	A		b	b	b
3.7 agriculture	A		b	b	b

Outputs and dissemination

Based on the above analysis we foresee the following research outputs:

Action research	Longitudinal studies	Research grants	Thematic studies
15 case studies 5 studies on cross-cutting themes	5 baseline study reports 5 final study reports 8 briefing notes on specific impact issues 1 book	25 study reports 25 briefing notes	5 exploratory (stocktaking) studies 5 studies consolidating key findings in specific areas 1 landscaping study

Outputs from different research activities will be consolidated, documented in a series of publications and widely disseminated to the insurance and microinsurance industry and to other important stakeholders. The dissemination is linked to the communication strategy of the Facility. In broad terms, all of the outputs will be available through the Facility website, some key outputs will be also published in hard copies and widely distributed through the Facility networks and various conferences. The Facility will also document the lessons learnt on the ongoing basis in short articles to be able to communicate the first findings without waiting 3-4 years for more comprehensive evidence. The website is supposed to be a lively learning platform and special initiatives will be taken to repackage generated knowledge and target key messages to specific audiences (i.e. know-how short emails / news to practitioners). Last but not least, in cooperation with the Facility the EUDN will organize a conference gathering key academics, donors and policy makers.

It is envisioned that 30% of the research outputs will be documented in 2010, 30% in 2011 and the rest in 2012. Some thematic studies will be already available in 2009. Timeframe of approximately half of the longitudinal impact studies will go beyond 2012.

ANNEX 1) METHODOLOGICAL NOTES

Extracted from research concept note on research strategy prepared by EUDN.

IMPACT:

(a) To study the impact of insurance schemes, it is necessary to design the data collection in such as way that credible counterfactuals can be constructed, meaning that one needs to be able to assess what the impact of insurance is compared to having no insurance. This can be obtained using randomized controlled trials (in which among a population, the 'beneficiary' group is randomly chosen in relation to non-beneficiaries), before and after evaluations with control groups (in which control groups are established that can be considered similar to the beneficiaries involved). Alternative designs that could be consistent with these outcomes include quasi-experimental designs (for example, 'natural' experiments, or the exploitation of staggered introduction of schemes or evaluation exploiting rules of implementation that allow credible counterfactual analysis near the threshold that separates beneficiaries and non-beneficiaries).

(b) In quasi-experimental designs care must be taken to account for existing risk coping strategies in the absence of insurance. The question is whether poor people would benefit from insurance relative to these alternatives (often informal institutions with insurance characteristics). An important challenge is to compare the cost of insurance with the (implicit) cost of such alternative arrangements.

(c) Researchers are encouraged to take into account that in practice people who choose to take up insurance are likely to differ systematically from others. In experimental designs researchers may therefore want to define the treatment group as those to whom insurance is offered (but may decide not to enrol in the program).

(d) Impact assessment of insurance is fundamentally difficult as, by definition, insured losses may not occur for many of the participating households during a relatively short evaluation period. For example, only those experiencing health problems will receive payouts of health insurance. The result is that those paying a premium and not facing losses may seem 'ex-post' to be worse off than those not paying a premium, if few people experienced any losses in the period of investigation.

DEMAND

(a) For many of these questions, the variable of interest is the uptake of insurance. To allow a clear understanding of many of these issues, such as related to the link between price or other product attributes, a well-defined 'counterfactual' remains necessary, so that the comments above on impact analysis remain relevant. (As noted above, the counterfactual may involve participation in an informal institution (social insurance) or the use of livestock or other assets for self-insurance.) Similarly, for studies related to finding schemes that appear to have more credibility (e.g. schemes with more frequent interaction in the form of small payouts), the key tools for analysis are likely to be similar (i.e. making a comparison between different schemes, with well defined control groups). The same applies to studying the impact of information programmes on uptake.

(b) However, there is room for other methods as well. The design issues related to developing credibility require further conceptual and theoretical work,while documenting cases in a comparative framework remains relevant. A study of the understanding of risk and of insurance may well have to go beyond standard economic, business or insurance analysis into the realm of psychology or anthropology.

(c) The study of insurance behaviour is often done using willingness to pay or other hypothetical questioning. Caution is required as the relationship between actual

insurance behaviour (such as subsequent uptake) and responses to willingness to pay is typically not strong. Experimental games may offer some insight but issues such as the long-term horizon of actual insurance relationships (with payouts often many years later if any) make the replication of actual circumstances relatively implausible in short game settings. In any case, revealed risk aversion and actual uptake of insurance are substantively different concepts, partly motivating the type of research proposed.

SUPPLY:

(a) For many of these questions, the variable of interest is not easily defined, as it refers to the efficiency or sustainability of microinsurance operations. The need for well-defined 'counterfactuals' remains necessary. For some issues, such as comparing different models of delivery (e.g. individual versus group based), the principles and methods of impact analysis as discussed earlier would still be most relevant. For others, the evidence base will be hard to construct (such as comparative empirical work on institutional models, which rarely operate in comparable contexts).

(b) By implication, much of the work will have to be based on careful theoretical/conceptual work, supplemented with carefully documented case studies to offer empirical evidence. The virtues of theoretical analysis (such as on delivery models), should not be underestimated, even if based on rather stylised differences.

(c) In general, this work will have to be done in the context of a limited information base, and efforts to build this information base in a systematic and, if possible, quantitative way should be strongly encouraged.

ANNEX 2) NOTE ON ACTION RESEARCH PROGRAMME

The Microinsurance Innovation Facility invites innovation grantees to join the Action Research Programme to learn together how to improve risk-management options of low-income households in developing countries.

What is action research?[5]

Action research is a recognized form of experimental research that **focuses on the effects of direct actions** with the goal of improving the performance of a given organization. Because action research is done by practitioners it is often referred to as practitioner based research or self-reflective practice. This is much different than conventional research carried out by universities and governments that usually study other people or subjects in an independent way.

Action research is a method used to test new ideas and implement actions for change. Therefore, it is particularly useful in **generating innovations.** The Facility views action research to be similar to the commercial **concept of pilot testing new products or solutions**. However, it puts more emphasis on consolidating the new learning in a way that is useful and credible for the entire microinsurance community. Therefore, it follows key principles of **monitoring and evaluation** to improve reliability of results. Actions have a set goal to address an identified problem within a rigorous action research framework developed in the beginning of the project. The framework usually involves an **experimental design** - testing different solutions to a given problem, and comparing their cost-effectiveness.

Action research is a **continuous learning process**. It involves direct participation in a dynamic research process, while monitoring and evaluating the effects of the actions with the aim of improving practice. Participants in action research projects continuously reflect on their learning from the actions and proceed with new actions on the spot. It involves utilizing a systematic, cyclical method of planning, taking action, observing, evaluating and critical reflecting prior to planning the next cycle.

Action research is a **collaborative method that benefits both practitioners and a wider community.** It allows the Facility partners to improve their microinsurance practices and at the same time helps the Facility to document innovations useful for the wider microinsurance sector. Last but not least, the ARP provides a unique platform for peer learning (which is by far the most effective way of practice-based learning) through **a community of practice** composed of all the Facility innovation grantees.

What does it take to get involved?

To get involved in action research an organization must adhere to the principles outlined above and be committed to learn and exchange with others. In practical terms, involvement in the Facility's ARP is about **developing an action research framework** before

[5] http://en.wikipedia.org/wiki/Action_research, http://en.wikipedia.org/wiki/Participatory_action_research, http://www.actionresearch.net, http://www.jeanmcniff.com/booklet1.html.

undertaking a project supported by a Facility innovation grant. To develop an action research framework each partner organization needs to answer several questions organized in the three following steps:

1. What do we want to learn?
2. How do we collect and analyze relevant data?
3. How do we organize the learning process internally?

STEP 1 - What do we want to learn?

First, ARP partners need **to develop a learning agenda that reflects what they want to learn from the innovation project to improve their operations**. Without a defined learning agenda it is hard to learn in a systematic way and generate useful lessons.

With help from various stakeholders, the Facility developed a research strategy for 2008-12. The ARP can answer some of the questions on the global learning agenda.. **The Facility's research agenda can provide guidance to the ARP partners** when they are developing their own learning agenda. However, most important is that **the learning agenda of each ARP partner responds first to the partner's information needs.** In other words, partners are not obliged to answer all the questions listed by the Facility and may have a good reason to investigate some questions that are not covered by the Facility research agenda.

STEP 2 - How do we collect and analyze relevant data?

Successful action research projects use a **variety of data from different sources** to produce more reliable results. As a rule of thumb it is also important to **use both qualitative and quantitative tools** to ensure both an in-depth understanding and trustworthy figures.

The following data types might be considered within the ARP:

- ***Performance monitoring data*** – tracking key performance indicators over time to evaluate effects of the different actions on client value, efficiencies and sustainability.
- ***Client data*** – can be integrated in performance analyses (usually limited to location, socio-demographics, health status, etc.).
- ***Client satisfaction data*** – qualitative and quantitative data on client satisfaction and perceived value of the delivered products and services.
- ***Other sector and secondary data*** – national statistics, insurance sector data, health and other product related data, information on competitors or studies done by others in related areas.
- ***Staff feedback*** – although not objective, staff feedback is a valuable source of information that can enrich analyses, especially if front-line staff establish a close relationship with clients.

Most of the data are easily available to partners. The idea of the ARP is to build on and use data creatively in the learning process. If **performance monitoring and client satisfaction data** are not available the Facility encourages partners to implement monitoring of performance indicators and to conduct client satisfaction surveys.

STEP 3 – How do we organize the learning process internally?

To organize the learning process to promote learning occurs in a reliable and efficient way, several items need to be considered:

- ***Learning coordinator*** – partners are encouraged to identify a learning coordinator to collect data from existing sources, analyze or coordinate analysis conducted by external collaborators, consolidate all learning, facilitate acting on new learning to improve performance and communicate lessons learnt to the Facility.
- ***ARP team*** – the role of the team is to contribute to learning agenda, help interpret key findings and facilitate taking actions on the lessons learnt.
- ***Regular learning meetings*** – The easiest way to achieve continuous learning is to set regular learning team meetings every 1-3 months depending on the project developments. Meetings should be documented in minutes which cover key issues discussed, lessons learnt and next steps.
- ***Exchanges with the Facility and other ARP partners*** – the learning process can be significantly enriched through contacts with the Facility and other ARP partners. That way, the individual experience of each partner can be compared with the experience of its peers and recent developments in the microinsurance sector.
- ***Final data collection, analysis and documentation*** – without this last step, the learning benefits will be useful neither for the ARP partners nor for the wider microinsurance community.

What is the role of the Facility and its partners?

The Facility will actively manage the ARP by:

- providing guidance and advice to design the learning agenda and action research framework,
- if possible, participating in the ARP kick-off workshops with individual partners,
- assisting in identifying a learning coordinator,
- providing sample tools and technical advice to monitor institutional performance and to conduct client satisfaction studies as well as facilitating capacity building to implement them,
- monitoring learning processes on a quarterly basis (or as needed) with help of the learning coordinator,
- facilitating final documentation of innovation projects,
- organizing global experience sharing events every year to facilitate peer learning.

The ARP innovation partners:

- commit to learn and share experience,
- develop the action research framework,
- collect and analyze all necessary data,
- meet regularly to consolidate learning and send quarterly learning minutes to the Facility,
- report biannually on key project and learning milestones,
- contribute to global experience sharing,
- assist in final project documentation.

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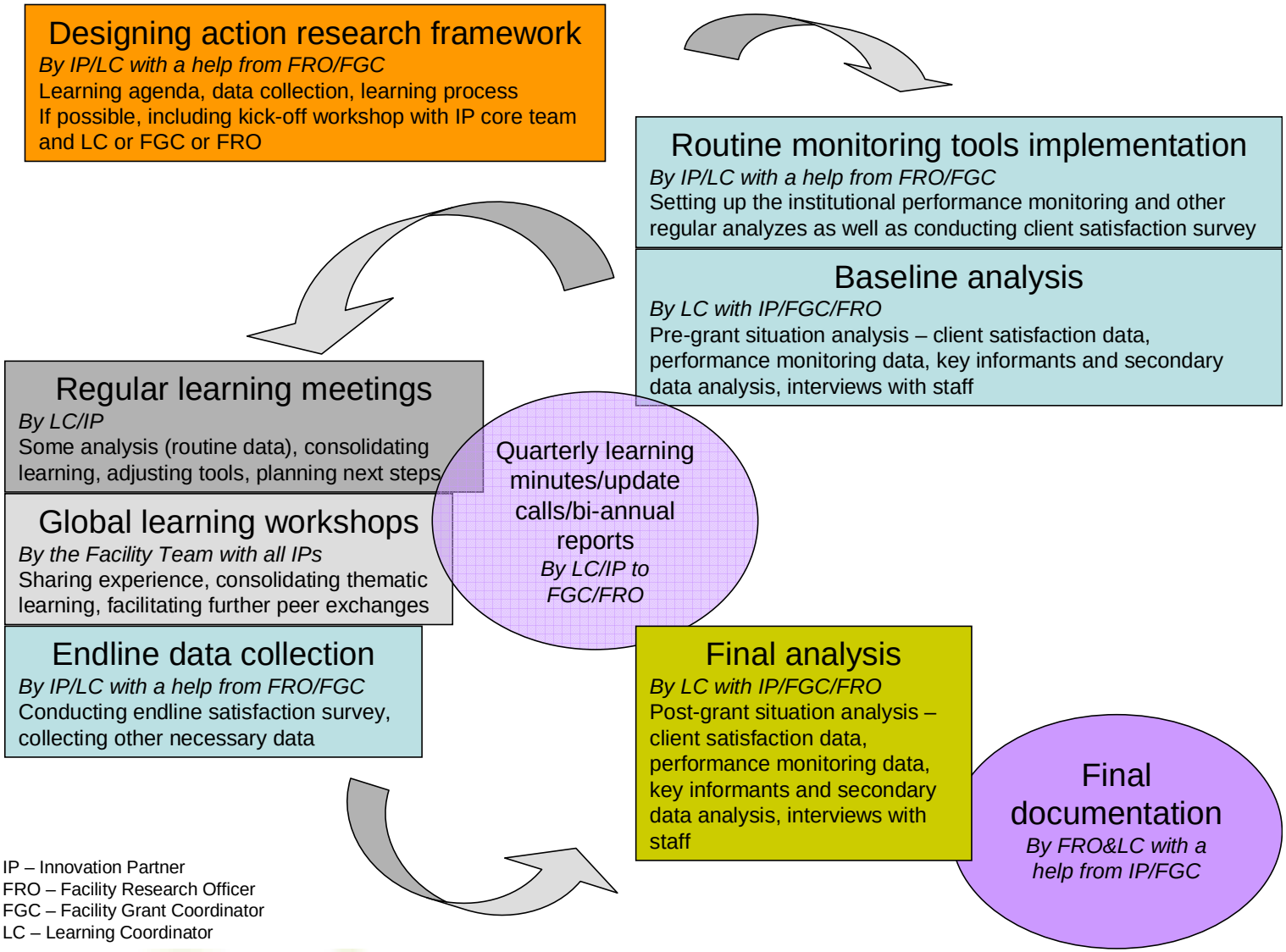
ANNEX 3) ACTION RESEARCH LEARNING MONITORING PROCESS



IP – Innovation Partner
FRO – Facility Research Officer
FGC – Facility Grant Coordinator
LC – Learning Coordinator

ANNEX 4) OTHER RESEARCH INITIATIVES IN MICROINSURANCE

Initiative/organization	Contact person	Research topics
WFP-IFAD Agriculture Insurance	Ulrich Hess	Agriculture insurance
Pharm Access – **Health Insurance Fund**	Chris van der Vorm, Emma Coles	Evaluations of their health schemes, both impact and client satisfaction
IRIS & Microfinance Opportunities – impact evaluations of innovations in financial services	Monique Cohen	One project on insurance – outcome assessment of AKAM health insurance scheme in Pakistan
BASIS CRSP, University of Wisconsin	Michael Carter	Some insurance related projects: - impact of health insurance in rural Cambodia (SKY) - productive safety nets for rural populations (Burkina, Kenya, Peru)
Financial Access Initiative (NYU, Harvard, Yale, IPA funded by Gates Foundation)	Jonathan Morduch	Behavioral economics applied to credit, savings and insurance. Limited number of projects on MI: crop insurance – Ghana; national health insurance (and some other projects) – Philippines
FinScope of the FinMark Trust	Darrell Beghin	Market surveys estimating access frontiers, consumer attitudes and demand for different financial services (incl. detailed section on MI)
CGAP WGMI – Impact sub-group	Ralf Radermacher	Started work on impact assessment methodologies
CIRM – India	Rupalee Ruchismita	Involved in many research projects on microinsurance in India
Microinsurance Academy - India	Ralf Radermacher	Health insurance – effectiveness of microinsurance value chain solutions, demand, education, product design
Inter-American Development Bank	Mark Wenner, Dieter Witkowski	Feasibility studies
Munich Climate Insurance Initiative www.climate-insurance.org	Koko Warner	Whether insurance can help people adapt to climate change? Can low-income people benefit from insurance, to what extent, for which risk layers?
ILO STEP	Christian Jacquier, Valerie Schmitt-Diabate	Linkages between social security systems and other mechanisms (i.e. health mutuals)
ILO Social Security Department	Pauline Barret, Philippe Marcadent, Krzysztof Hagemajer	Universal coverage for health, social security systems

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