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INTERNATIONAL LABOUR ORGANIZATION**

MICROINSURANCE IN WESTERN ASIA

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LIST OF ABBREVIATIONS

ASCA	accumulating savings and credit association
DIE	Deutsches Institut für Entwicklungspolitik / German Development Institute
ESCWA	Economic and Social Commission for Western Asia of the United Nations Organisation (UNO)
GDP	gross domestic product
HIV/AIDS	human immune-deficiency virus infection / acquired immune-deficiency syndrome
ILO	International Labour Organization / International Labour Office
JOD	Dinnar(s) of Jordan
JOHUD	Jordan Hashemite Fund for Human Development
MENA	Middle East and North Africa
MFI	micro-finance institution
NGO	non-governmental organisation
ROSCA	rotating savings and credit association
UAE	United Arab Emirates
UN	United Nations
UNO	United Nations Organisation
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near and Middle East
US\$	Dollar(s) of the United States
WHO	World Health Organisation

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EXECUTIVE SUMMARY

Social protection is a basic human right. The International Labour Organization (ILO) defines it as “*the set of public measures that a society provides for its members to protect them against economic and social distress that would be caused by the absence or a substantial reduction of income from work as a result of various contingencies (sickness, maternity, employment injury, unemployment, invalidity, old age, and death of the breadwinner); the provision of health care; and, the provision of benefits for families with children.*”¹

Social protection plays a key role for social, economic and political development. Its social function is to reduce poverty and inequality. Its economic function is to reduce the vulnerability of low-income households to risks, thereby encourage them to make investments in human or physical capital, which promise an increase in income in most cases and thereby the opportunity for households free themselves from poverty. And its political function is to contribute to social inclusion, build social cohesion and stabilise the political and social system.

In Western Asia, inequality has risen again during the last twenty years, which is not least due to the fact that large parts of the population are not covered by any formal social protection system. They rely on informal risk management mechanisms such as mutual support networks among relatives and neighbours, which suffer, however, from deficits in terms of scope and reliability. In consequence, at least 50 % of the inhabitants in Western Asian countries are highly vulnerable, i.e. they are likely to fall into absolute poverty when everyday risks occur – such as illness, old-age, unemployment, bankruptcy or harvest failure.

The United Nations Economic and Social Commission for Western Asia (ESCWA) and the International Labour Office (ILO) have started an initiative to promote dialogue on the national and regional level on the question how Western Asian countries can improve their social protection policies.

For the purpose of this study, ‘Western Asia’ refers to twelve countries: Bahrain, Iraq, Jordan, Kuwait, Lebanon, Palestine, Oman, Qatar, Saudi-Arabia, Syria, the United Arab Emirates (UAE) and Yemen. Thus, the report does not cover Egypt, Libya, Morocco, Sudan and Tunisia even though these countries are also ESCWA countries. But a report on microinsurance in Africa² has recently been published by the ILO, and it is covering not only sub-Saharan but also Northern Africa.

One option in this regard is microinsurance: a social protection instrument that is essentially based on the pooling of risks and hence mainly financed by member contributions but affordable for low-income earners and responsive to their specific needs and problems. It has proven to be effective in filling at least parts of the gaps in social protection coverage in other world regions: Several studies have been published in recent years on the prevalence and effects of a growing number of microinsurance schemes in large parts of the world while we still have only very little information on the incidence and experience of microinsurance schemes in Western Asia.

This study has been commissioned by ESCWA and the ILO to fill this information gap. It is meant to explore whether the information gap is due to a lack of experience with microinsurance in Western Asia or just a lack of documentation of such experience and to discuss to what degree microinsurance might help to extend the overall coverage of social protection schemes in Western Asia. A particular focus of the study is on micro-*takāful*. *Takāful* can be defined as insurance that conforms to the rules of Islam, and micro-*takāful* is the *takāful* variant of it.

1 Bonilla-García and Gruat, 2003, pp. 13-14.

2 Matul et al., 2010.

Micro insurance as a social protection tool

All human beings are exposed to manifold risks such as e.g. illness, old age or unemployment. They can try to manage these risks on their own but most people are unable to do so. They need support by the state, commercial companies, welfare organisations, co-operatives or society at large, which is called 'social protection'.

Unfortunately, the huge majority of people world-wide get no support in the management of their risks. The most affluent can buy private insurance, public sector employees tend to be entitled to non-contributory pensions and free health care, employees of formalised companies are covered by (contributory) social insurance schemes, and some of the very poor receive social transfers. But people in rural areas and those who generate their incomes from informal economic activities often fall into a gap between these different social protection schemes and are, hence, susceptible to falling into poverty whenever a risk occurs.

Basically four strategies can contribute to filling the gap: (i) extending social insurance coverage, (ii) broadening the outreach of social transfer programmes, (iii) promoting the accessibility of commercial insurance for low-income earners and (iv) strengthening mutual and other kinds of informal insurance mechanisms.

Microinsurance is the result of either of the latter two or their combination. It can be provided by the state, commercial insurance companies, micro-finance institutions (MFIs), non-governmental welfare organisations, co-operatives, self-help groups or an alliance of two or more of these organisations.

Microinsurance schemes world-wide show that it is possible to insure low-income groups without subsidy but a number of conditions must be in place for this, which can be grouped into four categories: (i) existence of demand, (ii) capabilities of the provider(s), (iii) appropriate design of the product and (iv) conducive framework conditions.

Microinsurance can help to close the gap that the informally employed, poor and marginalised often face in the overall set of social protection schemes in developing countries. But it is no substitute for social transfer schemes that support the extremely poor. Since it is financed by members' contributions, it is inadequate for people who are not able to meet their most basic current consumption needs, let alone make provision for future needs.

In some circumstances, also, it may be helpful to establish microinsurance as micro-*takāful*, the *takāful* variant of microinsurance. According to Islamic scholars, conventional insurance is at odds with Islam, while *takāful* is acceptable. It must be organised as mutual insurance, i.e. policy-holders insure each other, share all gains and losses and own the insurance reserves themselves. If a commercial provider gets involved, it does not take over the risks of policy-holders against a premium but manages only all financial flows against a service charge and is therefore called '*takāful* operator' rather than 'insurer'. And, of course, reserves must be invested in a way that conforms to Islamic law: e.g. not in gambling institutions, not in the production of or trade with alcohol, pork or weapons and not against a fixed interest rate.

Framework conditions of micro insurance in Western Asia

The social protection systems of Western Asian countries are characterised by four characteristics:

- The states are the dominant providers: Private insurance markets are small, NGOs and co-operatives suffer from weak capacities, and even the volume of mutual support provided within traditional solidarity networks is comparatively limited.
- Public social protection policies focus on the needs of the urban middle classes. Governments in the region spend huge shares of gross domestic products (GDPs) on social protection but the bulk is al-

located to schemes that cover only formal sector employees (such as pension schemes) or benefit urban middle classes substantially more than the poor (such as energy and food subsidies). Only small sums are transferred to social assistance schemes, which distribute income to the poor, while some of the other schemes even redistribute income from low-income earners to the urban middle classes.

- Large shares of the population do not have access to public social protection schemes: some 80 % in Yemen, at least 50 % in the Gulf states, Lebanon, Iraq and the West Bank and Gaza Strip and more than 40 % in Jordan. In the Gulf states, the main reason is that migrant workers are not covered by public social protection schemes, while in the other six countries, mainly informal sector workers are concerned.
- Many public social protection schemes suffer from severe deficits in terms of efficiency and sustainability.

Microinsurance in Western Asia

Unfortunately, there are no accurate figures based on sound assessment methods on the spread of microinsurance in Western Asia. Many studies stress that only very few microinsurance schemes exist in the region, and the result of our own survey confirms this finding.

Nevertheless, there are some schemes – mainly in Jordan, Lebanon, Palestine and the UAE – and some of them are rather successful. The oldest is run by a health care provider in Jordan, which is offering insurance against the treatment of cancer. But the product is almost a bit expensive for low-income earners. After 2001, three micro-finance institutions (MFIs) started offering credit life and work-disability insurance; MFIs in Lebanon and Yemen followed later. In addition, two of the Jordanian MFIs are now also offering health insurance in co-operation with commercial insurance companies. And one MFI in each Jordan and Palestine are now doing the same with regular life and work-disability insurance. At least five commercial companies are offering combined life, work-disability, accident and health insurance packages as full insurers in Jordan, Kuwait, Lebanon, Qatar and the UAE. And huge numbers of co-operatives in Jordan, Lebanon and Palestine are running very rudimentary mutual funeral, health transportation and life insurance arrangements.

At least one of the commercial companies, one of the MFIs and one of the co-operatives is offering its respective product as micro-*takāful*, i.e. in accordance with the Islamic Law.

Conclusions on the potential of microinsurance in Western Asia

The existing schemes demonstrate that microinsurance is principally feasible in Western Asian countries, and the wide range of the products they offer shows that the potential of microinsurance in the region is substantial. Most of the different actors can organise microinsurance as both, micro-*takāful* and conventional microinsurance.

However, there are at least five handicaps for tapping the full potential of microinsurance: (i) The microinsurance concept is still very little known throughout the region. (ii) Most NGOs and co-operatives suffer from weak capacities, MFIs have only limited out-reach with the exception of Jordan, Lebanon and Palestine, and in most Western Asian countries, insurance companies do not see a need to turn to low-income earners. (iii) Insurance, co-operative and NGO laws of several countries constitute constraints to several forms of microinsurance. (iv) Commercial companies and third-sector organisations (non-profit organisations being organised by members of society bottom-up) tend to mistrust each other and therefore have difficulties to co-operate. (v) Many citizens continue to expect solutions for their social problems mainly from the government rather than themselves.

Policy recommendations for governments

Governments in Western Asia should urgently review their social protection policies in order to improve their impact on their three goals: the reduction of poverty and inequality, the promotion of investment and growth and the stabilisation of state and society.

The most important step in this regard is to shift resources from the subsidisation of energy (as well as from some of the less efficient mechanisms of subsidising food) to direct social assistance programmes, which tend to have stronger impact on the living conditions of the poorest and most vulnerable groups in society.

But governments should also provide better help to the risk mitigation efforts of people hovering around the poverty line – especially migrant workers in the Gulf states and informal sector employees in the other six Western Asian countries. Governments can do so by extending the coverage of public social insurance schemes. But they could also think about supporting citizens in their own, sometimes self-organised efforts to manage risks – such as through microinsurance.

In particular, governments could (i) disseminate information on the potential of microinsurance, (ii) legalise the involvement of NGOs, co-operatives and MFIs in the marketing and management of microinsurance, (iii) support NGOs, co-operatives and MFIs in building capacities in these tasks, (iv) facilitate between NGOs, co-operatives and MFIs on the one hand and insurance companies on the other in order to enable them to co-operate in the provision of microinsurance, (v) subsidise start-up costs, (vi) provide emergency liquidity, (vii) inform consumers on the strengths and weaknesses of microinsurance products offered by different providers, (viii) define minimum quality standards for microinsurance schemes and products, (ix) ease dispute settlement between providers and consumers of microinsurance schemes through improvements in official legal procedures and the establishment of unofficial arbitration boards, and (x) promote the networking of microinsurance schemes.

I. INTRODUCTION

Western Asia is currently going through profound political, economic and social changes. Many of these have been triggered by the so-called ‘Arab spring’: the upheaval of people in several Arab countries in 2011, which has ultimately led to regime changes in Egypt, Libya and Tunisia, a reconstitution of the political system in Yemen and a disastrous civil war in Syria. Some Western Asian countries have embarked on political, economic and social reforms in order to prevent broader upheavals and their possible impacts on politics. But none of them has introduced so far any more systemic reform of its social protection systems. That is surprising because the ‘Arab spring’ was driven not only by the wish of young people in the Arab countries to live a life in dignity and increase their political voice, but also by their feeling that the economic growth of their country during the 2000s had benefitted only a small portion of the population and that poverty levels had stagnated at best during this time, while inequality of opportunity *and* outcome had risen substantially.

In fact, human development has been lagging behind economic development in most Western Asian countries during the last two decades. All countries in the region started to develop from very low levels of human development after the Second World War but they could substantially make leeway after independence in terms of both economic and social development. However, as from the mid 1990s, they continued to grow at moderate rates but their progress in multidimensional poverty reduction lost pace and their Gini coefficients (which had been low in international comparison throughout the 1970s and 1980s) began to rise.³

One reason for this trend is that public social protection systems in Western Asia became more and more inefficient and socially unjust – and hence ineffective in particular in terms of poverty reduction. Governments spent increasing shares of their budgets on the subsidisation of pension schemes and consumer subsidies while the existing social assistance schemes dried up financially. Today, large parts of the population in Western Asian countries are still lacking access to any formal social protection scheme. They rely on traditional forms of risk management, which are, however, limited in scope and reliability.

ESCWA of the United Nations Organisation (UNO) and the International Labour Office (ILO) have therefore started an initiative to promote dialogue on the national and regional level on possible reform options for Western Asian countries in the field of social protection.

One such option is microinsurance, which is a social protection instrument that is mainly based on the pooling of risks and hence mainly financed by member contributions but affordable for low-income earners and responsive to their specific needs and problems. It has proven to be effective in filling at least a part of the gap in social protection coverage in other parts of the world. The question is thus if microinsurance could also be helpful for extending the coverage of social protection in Western Asia as well.

So far, we have too little evidence to answer this question. Other world regions have been more intensively researched with regards to the prevalence of microinsurance. Roth, McCord and Liber have made a first try in 2007 in assessing the provision of microinsurance in the poorer half of countries world-wide but they provide hardly any information on Western Asian countries. Only Jordan, Lebanon, Palestine and Syria are among these countries because it was apparently substantially more difficult for the three authors to get information on these three Middle Eastern countries than on countries in Latin America, sub-Saharan Africa or South-East Asia. Still, they conclude:

*A glaring gap in microinsurance availability is to be found in North Africa and the Middle East*⁴

Another research paper was written by Giesbert and Voss (2009) but it summarises only the study by Roth, McCord and Liber (2007) and some other reports⁵ On the Arab countries it says that they lack a sig-

3 Cf. Loewe, 2010c, p. 12.

4 Roth et al., 2007, p. 18.

5 Cf. Giesbert and Voss, 2009; Roth et al., 2007.

nificant “microinsurance sector” and explains the finding by the prohibition of interest in Islam (even though there are many ways to organise insurance without interest).

In 2010, a more detailed microinsurance landscape study⁶ was published with a focus on Africa, and a second one⁷ in 2013. In the same year, McCord, Ingram and Tatin-Jaleran produced a study⁸ on Latin America and the Caribbean, and in 2014, a study⁹ on Asia and Oceania was published by the MunichRe Foundation. But no study has focused so far on Western Asia.

Therefore, this study has been commissioned by the joint initiative of ESCWA and the ILO. It is meant to analyse the strengths and weaknesses of microinsurance as a social protection instrument for Western Asian countries with a particular focus on micro-*takāful*. *Takāful* can be defined as insurance that conforms to the rules of Islamic Law, and micro-*takāful* is the variant of *takāful* that is affordable and appropriate for the poor.

The study looks only at countries in Western Asia: Bahrain, Iraq, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, Saudi-Arabia, Syria, the United Arab Emirates (UAE) and Yemen.

The study proceeds as follows: *Chapter 2* explains why microinsurance may be needed and where and when it can be an effective social protection tool. *Chapter 3* analyses the state of social protection in Western Asia as well as the framework conditions for microinsurance with a special eye on micro-*takāful*. *Chapter 4* assesses the prevalence of micro-*takāful* and other forms of microinsurance in the region. *Chapter 5* documents the experience of selected examples of commercial microinsurance in different Western Asian countries and discusses their strengths and weaknesses with regards to equity, efficiency, governance, regulation and sustainability aspects. *Chapter 6* draws conclusions from the preceding chapters on the potential of microinsurance in Western Asia. And *Chapter 7* closes with policy recommendations.

The study is primarily based on information from academic literature and the mass media including the internet. In addition, a survey was conducted among actual and potential providers of microinsurance in all Western Asian countries. Tens of questionnaires were sent out by e-mail to insurance companies, *takāful* providers, Islamic development organizations, co-operatives, micro-finance institutions (MFIs), non-government organisations (NGOs), insurance regulators and policy makers. However, only very few of the addressees answered at all, and most of these just informed us that they do not offer microinsurance and also do not know any microinsurance scheme in their country. In the end, we received only eight filled-in questionnaires, while we had initially hoped to get at least thirty. Perhaps, the meagreness of the return can be seen as just the most telling indicator of the low incidence of microinsurance in Western Asia. At the same time, however, it disables us from drawing more general conclusions on the potential and challenges of microinsurance in that part of the world.

6 Matul et al., 2010.

7 McCord et al., 2013a.

8 McCord et al., 2013b.

9 Mukherjee et al., 2014.

II. MICRO INSURANCE AS A SOCIAL PROTECTION TOOL

The large majority of people in low and middle income countries lack access to adequate social protection schemes and must therefore manage risks such as illness, old age and unemployment on their own. Especially low income earners in the informal economy are in this way highly vulnerable as they are likely to fall into poverty whenever a risk leads to unexpected expenditures or a loss in income. Several strategies can be thought of to close the gap in formal social protection schemes coverage in the informal economies of low and middle income countries, and one of them is microinsurance, that is insurance for low income earners. Since conventional insurance is considered to be a bit at odds with Islamic law, a special form of Islamic insurance, called *takāful* has been developed, and it also has a version called micro-*takāful*, which is particularly targeting low-income earners.

The remainder of this chapter argues that every human being faces manifold risks at any point in time and can theoretically deal with these risks in different ways, that social protection means support in the management of risks and can be organised by most different actors, that it is possible to organise sustainable microinsurance for people on low-income, that microinsurance has substantial potential in many countries of the world but that there are also limits to its potential, and that micro-*takāful* is nothing but the Islamic variant of microinsurance and can thus be organised in similar ways.

A. RISKS AND RISK MANAGEMENT

Literally everybody is exposed every day to a broad array of risks such as illness, work-disability, unemployment, business default and others that can lead to a significant decline in well-being. A risk is the possibility of an event with insecurity regarding the probability of occurrence (e.g. illness) or with regards to the possible magnitude of effects (e.g. longevity). Some risks impact the income of a person or household (e.g. unemployment), some impact the spending (e.g. liability) and some impact both (e.g. illness that leads to temporary work-disability and the need for medical care).

Risks can be differentiated by their sphere of origin. Traditionally, the literature on social policies and social protection has been focusing on health-related risks (infections, chronic diseases, injuries, epidemia etc.) and so-called life-cycle risks (birth, marriage, death, age-related work-disability etc.). For example, ILO convention 102 concerning minimum standards of social security from 1952 requests all signatories to provide protection at least against three of the following risks: costs of medical treatment, loss of income due to sickness, unemployment, old-age, loss of income due to employment injury, care for children, loss of income due to maternity, loss of income due to invalidity and loss of income due to the death of a main breadwinner of a family.¹⁰ However, many people, in particular in rural regions of low and middle-income countries, are much more exposed to economic risks (bankruptcy, terms of trade shock, financial crisis, market break etc.), social and political risks (war, civil war, coup d'état, political default, social upheaval, theft, bomb attack, riots etc.), environmental risks (river pollution, deforestation, soil salination, nuclear disaster) and in particular natural risks (drought, hail, harvest pest, animal disease, flood, landslide, tsunami, earthquake, volcanic eruption etc.).¹¹

People can deal with their risks in three different ways: prevention, mitigation and coping. Prevention means that people try to reduce the probability of a risk through e.g. careful behaviour in traffic, hygiene, safety measures at the working place etc. Mitigation includes all kinds of strategies that are meant to reduce the possible consequences of a risk: risk pooling (insurance), diversification and provisioning. Risk coping finally includes all efforts to go along with the effects of a risk (reduction in spending, borrowing from

10 Cf. International Labour Organization, 1952.

11 Cf. World Bank, 2000.

neighbours etc.). Prevention and mitigation measures have to be implemented before a risk may unfold, while coping is always an ex-post mechanism.¹²

Studies¹³ on risks and risk management in Palestine show, for example, that households without access to public social protection schemes typically try to mitigate their risks with the following instruments:

- Accumulation of savings/ assets in the form of buffer stocks, cattle, gold and land (in this order).
- Participation in *ḡamaʿiyyāt fardiyya* (rotating savings and credit associations/ ROSCAs) with friends, neighbours and colleagues.
- Organisation of accumulating savings and credit associations (ASCAs) within the extended family, which have a savings and an insurance component.
- Organisation of group insurance (most frequently covering funeral costs) within the community.
- Collective saving and investment within the extended family.
- Income diversification through the diversification of jobs within the family (for example: one son joining the father in his business, the second studying engineering at university, the third learning a different craft and the fourth migrating to the Gulf – with the effect that the brothers can provide mutual support if the economic sector of one of them is going through a recession).
- High number of children to provide support at old age.
- The *mahr* (dowry) that provides social protection to both the wife (in case of a divorce or early death of the husband) and her parents (at old age in case they have no sons).

Typical ways of Palestinian households to cope with risks are

- To reducing consumption spending (e.g. by skipping meals, eating cheaper food, walking parts of the way to work, moving to smaller houses).
- To ask relatives, friends and neighbours for help (credit or grant).
- To found or participate in a *ḡamaʿiyya* (ROSCA) where the first round goes to oneself.
- To use up savings and sell valuables.
- To increase the family's labour supply (wife starts working, husband starts to do a second job in the evening).
- To sell land and machines.

The vulnerability of households depends on their individual risks (probability and magnitude of possible effects) as well as their ability to deal with risks. Vulnerable households are not necessarily poor. Poverty and vulnerability differ in conceptual terms: While poverty is a state at a specific *point in time*, vulnerability is the likelihood of a significant decrease in well-being due to risks within a given *time span*.

Nevertheless, poor households tend to be more vulnerable than rich ones for two reasons: First, they are normally exposed to more risks, a higher risk probability and a higher relative decline in income (the same absolute loss is more threatening for people with lower income), because they often have more precarious living and working conditions than the rich. They may house next to a dangerous river, be exposed to lack of hygiene in the living area, lack of safe drinking water and sanitation, lack of proper food, lack of safety at work, hazardous work etc.. Second, they tend to have less access to adequate risk management instruments. In particular, they suffer more from the same absolute loss that is due to a risk than a person with much higher income and wealth because the loss means a much higher cost in relative terms for a poor person than for a rich person and hence a more serious decline in well-being.¹⁴

At the same time, vulnerable people tend to be poor. First, they are more likely to suffer from a decline in well-being and thus become poor. Second, they tend to be particularly risk-averse: If ever they have some extra money that they can save, they tend to hoard it or save it in a way that the money is secure and easy to access once it is needed to cope with a risk, i.e. once they have to use it to get along with the effects

12 Cf. Holzmann and Jørgensen, 2000.

13 E.g. Hilal and El-Malki, 1997, pp. 51-68; Loewe, 1997.

14 Cf. Loewe, 2005, p. 407.

of a risk. However, whenever an investment strategy is dominated by a security and a liquidity goal, they bear normally only very limited returns. Only once a household is protected against the most serious risk, does it start to invest also in more high-return and less-security assets. In the literature, there is thus an increasing consensus that social protection cannot only be a ‘safety net’ but also a ‘springboard’ that enables poor households to invest into their economic activities and thereby free themselves from the worst forms of deprivation – a thesis that is also being discussed at length in the World Development Report 2013.¹⁵

B. SOCIAL PROTECTION

Social protection is the support of households or individual persons in their efforts to manage risks and poverty. The ILO defines it as “*the set of public measures that a society provides for its members to protect them against economic and social distress that would be caused by the absence or a substantial reduction of income from work as a result of various contingencies (sickness, maternity, employment injury, unemployment, invalidity, old age, and death of the breadwinner); the provision of health care; and, the provision of benefits for families with children.*”¹⁶

It can thus be a contribution from most different actors (the state or any public organisation, a commercial company, a welfare organisation, a co-operative, a mutual support network or society at large) to the implementation of either of the risk management strategies mentioned above. Table 1 shows that all of these actors can help households in similar ways of managing risks: risk prevention, risk mitigation (pooling, diversification or provisioning) or risk coping.

However, governments remain with an overall responsibility to make sure that (i) quality social protection schemes are available and (ii) that all people have access to social protection schemes that respond to their needs and problems. Thus, the state does not necessarily have to become active in social protection if non-state actors are able to provide equitable and fair social protection to all population groups – an idea that has sometimes been labelled the ‘principle of subsidiarity’.¹⁷ But the state must become active in case of default at least by building up public social protection schemes for those who are not well enough served by non-state schemes of social protection.

Social protection is a fundamental human right guaranteed by the Universal Declaration of Human Rights¹⁸, the International Covenant on Economic, Social and Cultural Rights from 1966¹⁹ and many national constitutions such as those of Iraq²⁰, Kuwait²¹, Oman²², Qatar²³, Saudi Arabia²⁴, Syria²⁵ and the United Arab Emirates²⁶.

15 World Bank, 2012.

16 Bonilla-García and Gruat, 2003, pp. 13-14.

17 Cf. Lampert, 1991, pp. 416-417.

18 United Nations, General Assembly, 1948, Articles 22, 25.

19 United Nations, General Assembly, 1966, Article 9.

20 Iraq, 2005, Articles 29-31.

21 Kuwait, 1962, Article 11.

22 Oman, 2011, Article 12.

23 Qatar, 2010, Articles 21, 23.

24 Saudi Arabia, 2005, Article 27.

25 Syrian Arab Republic, 2012, Article 22.

26 United Arab Emirates, 1996, Article 16.

Table 1: Actors and strategies of social protection: some examples				
Society/ mutual support networks	Co-operatives	Third sector wel- fare organisations	Commercial com- panies	The state and public institutions
<i>Risk prevention</i>				
– Proper feeding and weaning – Hygiene – Sustainable use of public and club goods	– Joint construction of dams and dykes	– Legal consultancy – Health awareness campaigns – Adult alphabetisation programmes	– In-service training – Labour standards	– Financial market literacy – Predictable macroeconomic policies – Quality public education (lowering the risk of unemployment) – Consumer protection policies
<i>Risk pooling (insurance)</i>				
– Mutual cash support on the basis of generalised reciprocity *	– Community-based insurance	– Microinsurance offered by welfare organisations	– Private health or life insurance	– Social insurance – Non-contributory pensions
<i>Risk provisioning</i>				
– Mutual cash support on the basis of balanced reciprocity *	– ROSCAs and other savings and credit associations		– Bank accounts	– Public provident funds
<i>Risk diversification</i>				
– Multiple jobs – Investment in human and social capital	– Joint portfolio investment – Multiple jobs within community		– Investment in multiple financial assets	– Extension of financial services to the poor
<i>Risk coping</i>				
– Selling of real assets, dissaving – Mutual support on the basis of balanced reciprocity – Child labour – Migration	– ROSCAs and other savings and credit associations	– Disaster relief	– Bank loans – Loans from employer – Paid / unpaid leave	– Social assistance – Subsidies
<p>Source: own design but based on Holzmann and Jørgensen, 2000, table 3.1; Loewe, 2009a, overview 4.</p> <p>* The term ‘reciprocity’ refers to an exchange of transfers between economic subjects that is based on the idea of ‘give-and-take’, i.e. the transfers are somehow similar. Often, they are not executed at the same time, i.e. the first takes the form of a gift, which is, however, tied to the expectation that a gift-in-return will follow at some moment in time. Reciprocity is thus distinct from true gifts such as charity (altruistic transfers).</p> <p>Traditional solidarity networks tend to be based on strong relations and considerable trust between members. They are thus based on ‘generalised reciprocity’, i.e. their members help other members if they are in need – with the expectation that they will also be supported by the network when they need it – but not necessarily by the very persons that they have supported themselves. Rather, they can claim to get help from any network member that is well enough of at the critical moment. Generalised reciprocity is thus the basis of a traditional form of insurance where individuals feel responsible for the community and expect the community to help them in case of need.</p> <p>If the relations between the members of networks are weaker, they tend to be based on “balanced reciprocity. That means that their members assist other group members with the expectation that these members are going to pay the assistance themselves at some point in time in the future – either because the donor of the transfer becomes in need her/himself or</p>				

because the recipient recuperates and can pay back the gift like a credit. Networks that are based on such a kind of ‘mutual support’ are therefore not pooling risks like very traditional support networks or insurance schemes re-distributing resources over time. From the point of view of the initial recipient of transfers, they resemble a credit scheme, while from the point of view of the initial donor, they are like an investment scheme, which pays back the first payment at some point in time with or without an interest. For more details cf. Loewe, 2006; Loewe, 2009b.

In addition, the International Labour Organisation has passed several conventions and recommendations calling for a minimum set of social protection schemes in signatory countries – the most important ones being Convention 102 from 1952 on *Social Security Minimum Standards* and Recommendation 202 from 2012 on *Social Protection Floors*.²⁷ The latter goes back to an initiative taken by the UN Chief Executives Board (CEB) in April 2009 in response to the socioeconomic effects of the global financial and economic crisis, which called for joint global action to promote access to essential services and social transfers for the poor and vulnerable. The initiative involves the ILO, the World Health Organization (WHO), the Food and Agriculture Organization (FAO), UNESCO, the International Monetary Fund (IMF), the World Bank and the United Nations Organization (UNO) itself in addition to several non-governmental and bilateral donor organisations.²⁸

Social Protection Floors include:

- a basic set of essential social rights and transfers, in cash and in kind, to provide a minimum income and livelihood security for poor and vulnerable populations and to facilitate access to essential services, such as health care
- guaranteed geographical and financial access to essential services, such as health, water and sanitation, education, social work (see Figure 1).

According to ILO Recommendation 202, these guarantees should be provided to all residents and all children by national laws and regulations specifying the range, qualifying conditions and levels of the benefits that give effect to these guarantees. In addition, these laws and regulations should also provide for effective and accessible complaint and appeal procedures.²⁹

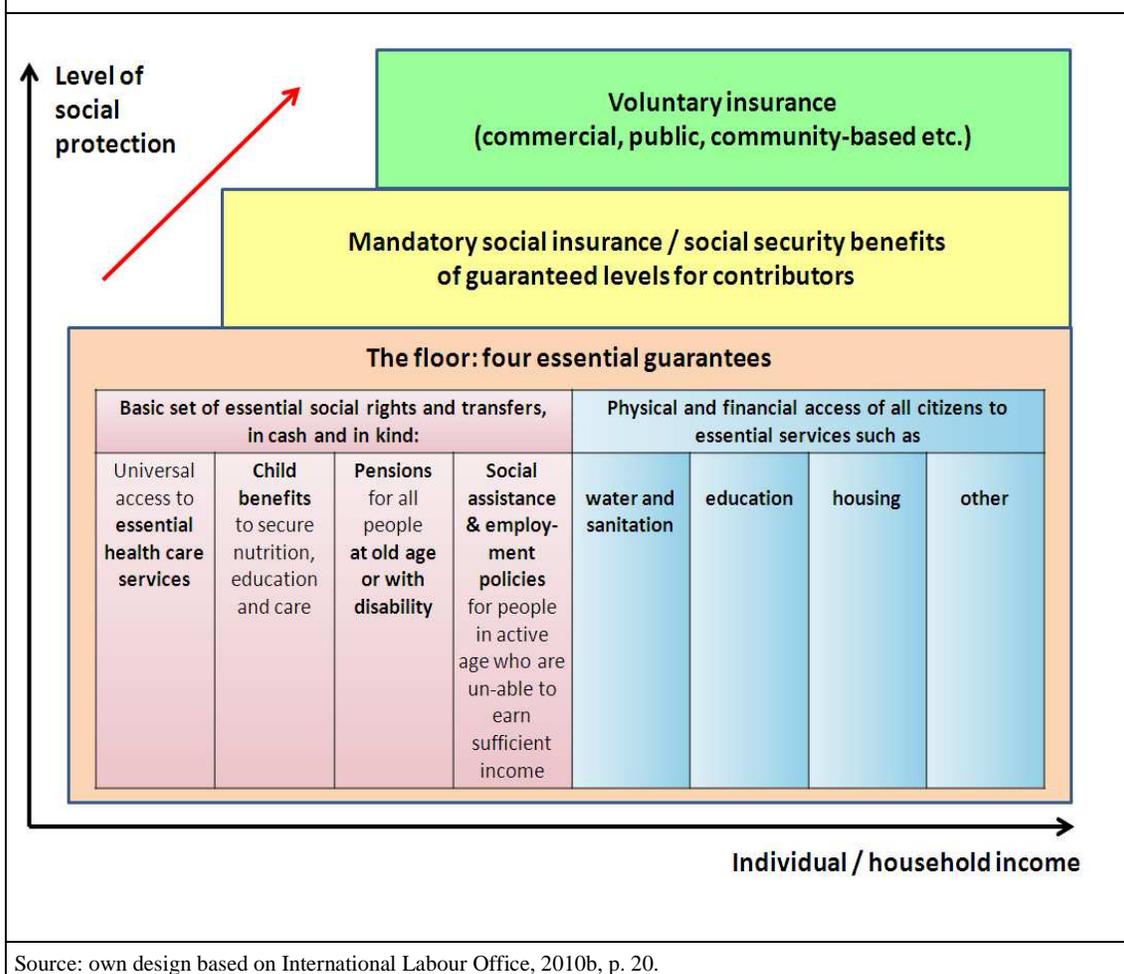
Micro-insurance is not part of the social protection floor. The ILO recommends that social protection floors should cover the entire population, while people with somewhat higher incomes should in addition have access to risk mitigation schemes such as mandatory social insurance plus possibly voluntary insurance, which includes micro-insurance (see Figure 1).

27 International Labour Organization, 2012.

28 Cf. United Nations System Chief Executives Board for Coordination, 2009.

29 Cf. International Labour Organization, 2012.

Figure 1: The social protection staircase



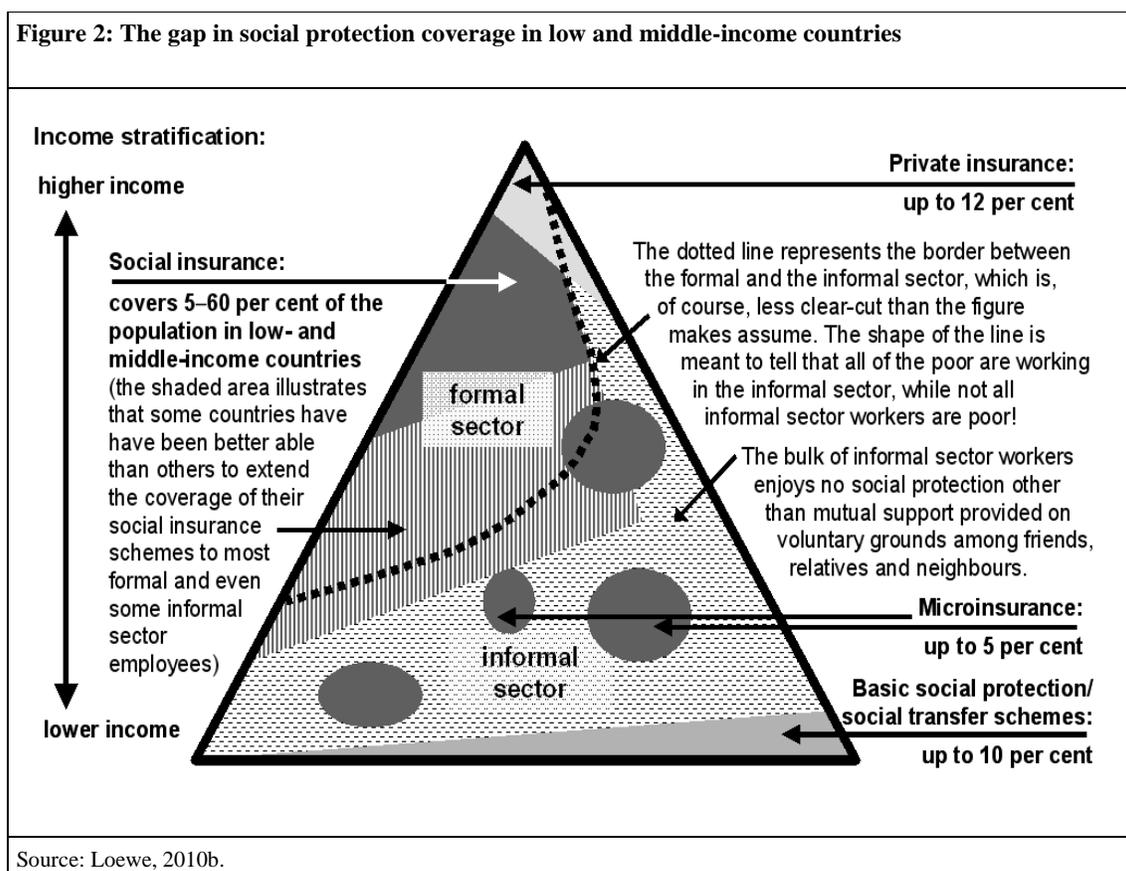
Apart from legal obligations, there are three good reasons for the state to make sure that all citizens have access to social protection: a social, an economic and a political one:

- Of course, social protection is important to improve social justice and equity in a society by preventing people from falling into poverty, assisting those who are in poverty and helping the poor to escape from poverty.
- In addition, however, social protection also has an economic function. As said, all people tend to avoid risky investments unless they enjoy at least some basic protection against their main risks. Any improvement in the access to effective social protection instruments can therefore contribute to raising the readiness of people to invest in higher-return, higher-risk assets: machinery, innovation, land or education and training. For example, the implementation of the Indian National Rural Employ-

ment Guarantee Act scheme has led to a stark shift in the cultivation by eligible farmers from low-risk, low-return crops such as rice to higher-risk, higher-return crops such as cotton.³⁰

- Finally, social protection is also important for the stability of the state and the society. It adds to social inclusion, social cohesion and social peace. Camacho (2014), for example, shows that the Peruvian conditional cash transfer programmes contributes substantially to the building of social capital among beneficiaries.³¹

Nevertheless, the majority of mankind has no access to reliable social protection schemes (see Figure 2). As a rule, some 20-50 % of people in middle-income countries are covered by either private or social insurance (only 5-25 % in low-income countries), while 20 % of the poor receive direct social transfers (only 2-10 % in low-income countries).³²



The remainder falls into a gap in formal social protection system coverage. It accounts for more than 50 % of the population in middle and more than 80 % of the population low income countries on average. Most people in this segment are poor or near-poor and work in the informal economy. They rely on the support provided by traditional mutual support networks and informal risk management arrangements such as savings and credit associations, which are weak and little reliable and tend to continue to erode with the modernisation, urbanisation and ageing of the societies of low and middle-income countries. In addition,

30 Cf. Gehrke, forthcoming.

31 Cf. Camacho, forthcoming.

32 Cf. International Labour Office, 2010a.

these mechanisms are often limited in scope and scale and highly susceptible to economic stress such as global financial and economic crises.

Four main strategies have some potential to contribute to closing the gap in social protection system coverage in low and middle income countries: (i) extending the coverage of membership-based pension, health and unemployment benefit schemes (including social insurance and tax-financed provisions); (ii) broadening the outreach of social transfer programmes, (iii) promoting the accessibility of commercial insurance products and (iv) strengthening mutual and other kinds of informal insurance mechanisms.³³

Some countries have been comparatively successful in the integration of large parts of the population into one or several social insurance schemes. Algeria, Libya and Costa Rica, for example, were able to increase the overall coverage of their public pension schemes to significantly more than 80 % of the employed population.³⁴ Likewise, Tunisia, Korea and Thailand have achieved near-universal social health insurance coverage by 2013, while countries such as Kuwait or Gabon have made their non-contributory public health systems accessible for free to almost all citizens.³⁵

In most low and middle-income countries, however, the results were rather modest. Especially low-income countries were unable to deal with the specific problems of low-income earners, especially in the informal sector.³⁶ The extension of social insurance coverage is hampered by four factors:

- Social insurance schemes in low and middle-income countries face administrative obstacles in dealing with additional members, particularly if these are active in the informal economy. Problems emerge from their identification, the registration of their personal data, the collection of contributions and the control of declared income.
- New groups to be covered by social insurance legislation typically lack a good lobby or self-organisation. Hence, they are unable to put pressure on the state to extend the coverage of social insurance in their favour. At the same time, the representatives of formal sector employees as well as middle and higher income classes often oppose changes in the eligibility criteria of social protection schemes fearing that such changes might undermine the privileges of the groups currently covered.
- Due to the scarcity of financial resources, governments are often reluctant to broaden social security systems. They prefer to spend public funds on other items.
- Given the limited financial capacity of low income workers, the contribution and benefit rules of existing social insurance schemes are difficult to apply to new members. In some middle-income countries such as e.g. Egypt, the government therefore subsidises the contributions of informal sector workers, which is, of course, much more difficult for low-income countries, where up to 90 % of the working population is employed outside the formal sector.³⁷

The scope of increasing the outreach of tax-financed social transfer schemes is even more limited. Especially low-income countries, which tend to have a rather limited tax-base and a very high share of people living below the poverty-line, face severe difficulties in financing social assistance, social credit or public works programmes that reach more than a rather limited share of those who would need the support. In addi-

33 Cf. Beattie, 2000, p. 135; Bender et. al., forthcoming; van Ginneken, 1999, p. 58-66.

34 Cf. Loewe, 2014, pp. 88-90; Mesa-Lago, 1992.

35 Cf. Loewe, 2013b, pp. 147-148.

36 Cf. Van Ginneken, 1997, p. 12; Beattie, 2000, p. 135; Gillion et al., 2000, pp. 203-204.

37 In particular, Egypt has a Comprehensive Social Security Scheme for Informal Sector Workers. According to Law 112 from 1980, membership is mandatory for all Egyptians that are not covered by any other social security scheme. According to different sources, the scheme is non-contributory respectively charging a rather symbolic contribution of 1 EGP per month. There are few references to the scheme but Law 81 from 2012 proves that the scheme still exists because it explicitly mentions that the minimum pension guarantee provided by that law applies inter alia also to the Comprehensive Social Security Scheme. According to different sources, the level of pensions is 50 respectively 63 respectively 79 EGP but in any case so high that it cannot be financed by the low contributions, cf. Loewe, 2004, p. 6; Egypt, 2012; Helmy, 2008; Selwaness, 2012; United Nations Population Fund Egypt, undated.

tion, even if these countries were able to extend their spending for social transfer schemes, they would find it hard to target their transfers well to the neediest in society because of limited administrative capacities. And finally, these countries often suffer from limits in the commitment of policy makers for spending public funds for the improvement of the well-being of the very poor in society – which is again due to the fact that low-income groups tend to be much weaker than for example the urban middle classes in organising political protest and opposition.

Commercial insurance companies also face difficulties in offering products that are affordable and adequate for lower income groups:

- Their costs resulting from transactions such as marketing, underwriting, premium collection and claim management do not depend on the insured sum; rather, they are an almost fixed amount per contract – whatever the actual level of premiums and the size of the benefit package are. These costs are often as high as the premiums that low-income earners can afford to pay – or even higher. This problem is further intensified by the fact that low-income earners are predominantly employed in the informal sector and that they often live in areas that are difficult to reach. As a result, the transaction costs of insurance companies are particularly high even in absolute terms when they deal with this part of the population.
- In addition, commercial insurance companies are unable to level out information asymmetries inherent in the insurance business when dealing with low-income earners in the informal sector. Insurers need information on the risk profile of their potential clients in order to price their products adequately and to avoid adverse selection. Likewise, they must be able to observe the behaviour of policyholders after underwriting in order to control for moral hazard and fraud. The problem is that policyholders are better informed about their risk profile and behaviour and can hide their information from the insurer. As opposed to informal sector workers with unstable employment and without labour contract, insurers can gain at least some indications of the risk profile and behaviour of formal sector employees, because these are easy to observe and usually registered with government institutions.
- Finally, commercial insurance companies face difficulties in inspiring confidence among low-income earners because they tend to be distant in spatial, social and temporal terms from this group of the population. Spatial distance means that they are, as a rule, based in the commercial areas of towns and thus difficult to reach by people living in villages or informal urban settlements. Social distance means that the staff of insurance companies, typically originating from urban middle income classes, lacks the necessary understanding for the needs and problems of the poor, who, on the other hand, shy away from direct relationships, because they are not familiar with the concept of insurance, do not expect commercial companies to offer products fitting their needs and are suspicious of insurance companies because of fear being cheated. Temporal distance, finally, means that the benefits commercial insurers promise are in many cases due long time ahead in the future: a time horizon that low-income earners, sometimes struggling for day-to-day survival are unable to plan or even consider.

The gap in social protection coverage might also be closed by the promotion of self-organised schemes such as community/ group-based insurance. However, co-operative arrangements of this kind are often very weak and not sufficiently reliable unless they are taken up and ultimately run³⁸ by the state:

38 Traditionally, Islamic *zakāt* was a means of social protection and redistribution in the MENA region. It is an alms toll that the Islamic state used to collect in medieval times and constitutes one of the five main duties of Muslims (*arkānu-l-Islām*). In the absence of an Islamic state, the *zakāt* is given by Muslims on a voluntary basis but some modern states have introduced the *zakāt* again. In the public debate of Muslim countries, the *zakāt* is often highlighted as an effective instrument of social protection but in reality the amounts that voluntary *zakāt* redistributes are very limited, cf. Loewe, 2000, p. 21; Loewe et al., 2001, p. 32. The reasons are very much the same as those mentioned in the main text. However, the *zakāt* tends to be very inefficient and hence effective despite the limited levels because it is often distributed to those in need by very motivated and well-informed Muslims working in local *zakāt* without pay. In addition, the volumes and the effectiveness increase substantially when

- Most of them lack the know-how needed to calculate sustainable premiums for the offered insurance package with the result that they are either too expensive or go bankrupt because their premium income does not suffice to cover their expenses.
- Likewise, most schemes are very small and hence unable to manage any random coincidence of a larger number of claims. Whenever by chance a larger number of their policy holders are hit by the insured risk at the same time, these schemes cannot pay because their reserves are exhausted.
- And these schemes are often very unstable. When their founders leave the scheme or die, they often stop to operate all of a sudden and leave their clients without compensation for their claims.

C. MICROINSURANCE

Microinsurance is a concept that has been developed against the background and as a response to the weaknesses of other strategies to extend social protection coverage in low and middle-income countries. It emerged almost simultaneously in two areas of development policy practice: On the one hand, self-help groups and social welfare organisations were trying to meet the demand from low-income households for life, health and crop loss insurance. On the other hand, microfinance institutions started offering insurance together with credit in order to safeguard themselves against losses that are due to the death or disability of their clients.

The word ‘microinsurance’ refers to predominantly risk pooling schemes that compensate their members in the event of specified risks (sickness, disability, etc.) and are financed from contributions that even low-income earners can afford. Hence, its benefits are limited because contributions must be low. Perhaps even more important, the contribution and benefit conditions should be flexible in order to be able to react to the living conditions of low-income people (e.g. contributions due yearly after the harvest).

At the same time, it is of secondary importance who organises microinsurance. Accordingly, most different organisations have already set up microinsurance schemes:

- social insurance corporations (e.g. the Comprehensive Social Insurance Scheme in Egypt or the Rashtriya Swasthya Bima Yojana (RSBY) scheme in India),
- public insurance companies (e.g. the Janashree Bima Yojana in India),
- commercial insurance companies (Delta Life Insurance Co. in Bangladesh),
- health care providers (e.g. the Chogoria Hospital in Kenya),
- micro-credit institutions (e.g. the Card Bank in the Philippines),
- private welfare organisations (e.g. IRAM in Mozambique or the Activists for Social Alternatives in India),
- co-operatives (e.g. the Asociación Mutua ‘Los Andes’ in Columbia) and
- community networks (such as the harambees/ pulling together groups in Kenya).³⁹

There are basically three options how microinsurance can be built: downscaling, upgrading and linking. Each option is a different attempt to overcome the difficulties of the existing actors in offering affordable social protection instruments to low-income earners.

the state starts collecting the *zakāt* again from at least parts of the population. On the other hand, in these cases, *zakāt* tends to be nothing else but a modern tax-transfer-scheme with a religious label shifting resources from the rich to the poor. For a broader discussion of the history and different contemporary forms of *zakāt*, cf. Loewe, 2010a, pp. 69-70 and 83-84.

39 Cf. Loewe, 2009a, pp. 138, 162-170.

1. *The downscaling approach*

The first option is to scale down the products of public or commercial providers of insurance to the needs and capacities of low-income earners. This requires measures to (i) reduce the high transaction costs of professional providers of insurance, (ii) protect against adverse selection and fraud and (iii) gain the confidence of the target group.⁴⁰

One way how commercial and public providers of insurance can keep down transaction costs is to offer only group-insurance: The per-unit costs of group contracts do not substantially differ from those of individual contracts, but several people are covered by each unit. Another way is to outsource the interaction-intensive tasks of insurance provision – the marketing, the underwriting, the premium collection and the servicing – to an independent broker or sales agent, which can operate at lower costs than the insurer itself – either because its labour costs are lower (such as e.g. in the case of NGOs or self-help groups) or because it has already a dense distribution network, which can be used for multiple purposes and thereby allow for synergies (e.g. mobile phone companies, retailers, utility companies, post offices).

An additional advantage is that a broker or sales agent may also be able to bridge the social and spatial gap between the insurer and the policy holders if his personnel stems from the same social class like the clients and thus speaks their language. And a third way is to use modern technologies and (e.g. mobile phones, internet banking and automated teller machines) at least for the collection of premiums and settlement of claims.⁴¹

The risk of adverse selection can be lowered in two ways. The first is to offer group-insurance only: By covering all members of a given group by one single insurance-contract, the insurer makes sure to have a well-balanced mix of high and low-risk insurants. And the second way is to introduce waiting periods: They prevent, for example, already ill patients from making claims immediately after signing a health-insurance contract and, thus, reduce the incentive for high-risk individuals to buy insurance.⁴²

Instruments to control for moral hazard and fraud include co-payments and no-claims bonuses. Co-payments limit the sum that an insurer must pay when the insured risk occurs. They make sure that the insurants still suffer a little bit when they are hit by the risk and, thus, have an incentive to behave carefully and prevent the risk from happening. Similarly, a no-claims bonus discourages policyholders from frivolous conduct and fraud. It rewards clients who have not made a claim for a certain by e.g. a discount in their due insurance premium.⁴³

2. *The upgrading approach*

The second option to build microinsurance is to upgrade the capacities of self-help groups, co-operatives or welfare organisations. The approach requires that these organisations (i) learn how to design sound contracts and to compute sustainable premiums, (ii) find ways to stabilise their financial situation and (iii) gain political and legal acceptance and thereby institutional stability.

Learning how to design sound contracts and to compute sustainable premiums is perhaps the biggest challenge for self-help groups, co-operatives and welfare organisations. Most of them do not have any expertise in the insurance business so that trial and error is their only option to identify the most adequate premium level. An alternative is to purchase the necessary actuarial expertise from established insurance companies, independent actuaries or foreign experts. Also, self-help groups, co-operatives and welfare organisations can

40 Cf. Loewe, 2009b, p. 76.

41 Cf. Meessen et al., 2002, pp. 83-84; Prashad et al., 2013; Smith et. al., 2012.

42 Cf. Brown and Churchill, 1999, pp. 31-33.

43 Cf. Brown and Churchill, 1999, pp. 36-38; Hoogeveen, 2001, p. 108.

send one of their staff members to be trained abroad in designing contracts and calculating premiums and benefit levels.⁴⁴

The next challenge is to protect the financial liquidity of an insurance scheme. The schemes that are run by self-help groups, co-operatives and welfare organisations have often not very many policy holders with the effect that they are susceptible to the coincidence of a larger number of bad claims. One solution for the problem is the formation of an alliance between similar schemes of self-help groups, co-operatives and welfare organisations where a scheme that faces temporary liquidity problems can ask the others to provide a credit. The arrangement could be seen as a kind of a mutual re-insurance contract. In addition to that, governments or non-government donors could establish an emergency fund from which group-based insurance schemes may borrow if they are confronted with a temporary liquidity problem.⁴⁵

Finally, *gaining legal recognition* can be another challenge for self-help groups, co-operatives and welfare organisations in low and middle-income countries. Especially authoritarian regimes tend to have an interest in controlling all activities within society. Some are more reluctant with regards to purely social / charitable (i.e. less political) activities. Others, however, are particularly rigorous in this field.⁴⁶

3. *The linking approach*

The third option to build microinsurance is probably the most promising one. It consists in the co-operation ('linking') of comparatively different actors in the provision of microinsurance. This approach is based on the notion that in order to provide insurance several quite different tasks have to be performed, and while some of them are easier for more professional providers of insurance such as commercial insurance companies and social insurance corporations than for self-help groups, co-operatives and welfare organisations, the situation is just the opposite for the other tasks.⁴⁷

As a consequence, in the 'linking approach' or partner-agent approach', a self-help group, co-operative or welfare organisation acts as an 'agent' – meaning that it performs all tasks in which low costs, good knowledge of the target group and the latter's trust are important: the marketing, the underwriting, the premium collection and the servicing (including the customer care and the verification and settlement of claims).

At the same time, the agent is backed by a 'partner': for example, a commercial insurance company or a social insurance corporation. It takes on all remaining tasks, which require much less the proximity to clients and the knowledge of their need but know-how, stability and professionalism. These tasks include the product design, the risk management, the investment of possible reserves and the re-insurance of the whole scheme.

D. FEASIBILITY OF MICROINSURANCE

Still, microinsurance cannot be realised by just any actor or in just any country or for any risk. Its feasibility depends on several conditions, which can be grouped into four broad categories: (i) the existence of demand, (ii) the capabilities of the provider, (iii) the design of the product and (iv) adequate framework conditions.

44 Cf. Meessen et al., 2002, pp. 78-79.

45 Cf. Brown and Churchill, 1999, pp. 51-52; Hoogeveen, 2001, pp. 106-107; Loewe et al., 2001, p. 5.

46 There is not enough room to discuss the reasons here. For an extensive discussion cf. International Association of Insurance Supervisors and MicroInsurance Network, 2010, p. 23; Loewe, 2010a, p. 78.

47 Cf. McCord, 2001.

1. Demand

The most important condition for the applicability of the microinsurance is, of course, that there is demand for insurance among low-income earners. This depends on several factors:

- At least some low-income earners suffer from uninsured risk.
- They are aware of their vulnerability to these risks.
- They understand how insurance works.
- They accept the principles of insurance (which many people in Islamic societies do not).
- They are able and ready to pay at least the actuarially fair price of an insurance covering their risks.
- The insurance contract conditions are compatible with the needs of low-income earners.
- The target group trusts at least one of the potential providers.

Some of these conditions might be influenced by the conduct of public information and awareness campaigns. This is in particular true for the target group's awareness for their risks and its understanding for and acceptance of insurance. Other factors depend on the framework conditions, the existence of adequate providing institutions or the design of the contract to be offered. However, the by far most critical factor is, of course, the target group's ability to set aside some portion of its income for insurance.⁴⁸ In addition, the impact of most education campaigns conducted in the past has been rather limited according to the ILO's experience.⁴⁹

2. Provider

Even if the different tasks of an insurance provider are shared among two or more actors such as in the 'partner-agent' or 'linking model' model outlined above, at least one of them should be able to overcome the following challenges:

- minimise administration and transaction costs to the degree that an insurance product can be offered at a price that is affordable for low-income earners,
- retrieve enough information on (possible) clients and their behaviour that adverse selection and moral hazard can be controlled for,
- create trust among possible clients,
- invest possible reserves adequately,
- pool risks sufficiently among a high number of policy holders and
- prevent all actors involved from having contradictory interests that may set perverse incentives.

3. Product

Microinsurance contracts should always be easy to design (for the provider) and understand (by the customers – but also the providers): The language should be as simple as possible. There should be no or only very few exclusions. And the level and timing of premiums and benefits ought to be adapted to the cash flow of the customers. If possible, the premiums should be linked to an existing financial service.

Apart from that, microinsurance contracts can cover most different, but certainly not all risks. The risk to be covered must fulfil the following criteria:

- The risk should be entirely random (beyond the control of the insured) – or the insurer must be able to control for moral hazard (detect the misuse of the insurance). Neither of both is the case for e.g.

48 Cf. Brugnoli, 2013; Loewe, 2009a.

49 Information provided by Craig Churchill (ILO) in a comment on an earlier draft of this study.

the risk of harvest failure. Therefore, many harvest failure insurance schemes that have been set up during the 1950s and 1960s failed because many insured farmers relied on the insurance cover and became reluctant to make every effort to collect the optimal harvest.

- The risk probability and possible impact of the covered risk should be calculable. Insurers often refuse to cover damages caused by very new production technologies because they lack the information needed to assess the probability and estimated effect of risk occurrence and are therefore unable to calculate adequate premiums for the cover.
- The insurer should be able to assess the effective impact of an insured risk – which is another reason for the failure of the mentioned harvest failure insurance schemes from the 1950s and 1960s. Insurers can cover specific weather phenomena (such as e.g. hail, lack in rainfall, frost) that can lead to harvest failure. But they cannot offer insurance covering the harvest failure as such because it is impossible to determine how much a farmer would have harvested if only the weather conditions had been better.⁵⁰
- The effects of risk occurrence should correlate with either the income or the assets of the policy holders. For this reason, micro life and work-disability insurance can be offered, while micro health insurance poses serious problems. It refunds the costs of medical treatment of policy-holders, which do not correspond with their income or assets. That means that in any given indemnification package the insurer must expect to spend the same on benefits to each and every client. Consequently, he cannot sell the package to low-income clients at a lower price than to high-income clients. At best, he can offer poor clients a slimmed-down package that does not cover certain illnesses, excludes very expensive medical treatments or is restricted to a certain maximum annual amount. It must be considered that insurance makes sense primarily when it compensates for very high expenditure, since it may be possible to make provisions for lower expenses by saving. Nevertheless, for low-income clients, a limited-benefits package refunding at least some health care costs is still sometimes helpful if they do not have access to social health insurance schemes.⁵¹ Still, McCord et al. (2013) report a loss rate of 103 % for micro health insurers in Africa.⁵²

In addition, it can be difficult for micro-insurers to cover risks of the far future – i.e. to offer for example pension insurance, which protects policy holders against the risk of longevity. Risks of this kind constitute a particular challenge for three reasons: (i) The provider must be particularly trustful because policy holders contribute for many years and get their benefits only after a very long period. The risk of an insolvency or institutional breakdown of the insurer is thus particularly high. (ii) The insurer accumulates huge funds on behalf of the insured to be paid back only after a very long period. It must therefore be able to invest these funds at an acceptable level of risk and a sufficient rate of return over many years. (iii) The insurer must offer insurance holders to port their funds to another scheme when they move to another place.

4. *Framework Conditions*

Finally, the feasibility of microinsurance depends also on stable framework conditions:

- High inflation may pose problems for microinsurance schemes covering future risks. It means that the real value of a specific amount of money decreases quickly over time. As a consequence, the benefit promised by an insurance contract for the case of risk occurrence may be far less than the amount that a policy holder actually needs to compensate for a damage caused by the risk because inflation has driven up prices. In addition, insurers that have to invest accumulated reserves may face supplementary problems.

50 Cf. Gehrke, 2011.

51 Cf. Loewe, 2009a.

52 Cf. McCord et al., 2013a, p. IX.

- Finding adequate opportunities for the investment of reserves may be another challenge not only for insurers covering far future risks. Even life and disability insurance schemes (health insurance schemes a bit less) should generate some surpluses that the insurer should better invest in order to improve the internal efficiency of the arrangement. But many low and middle-income countries have underdeveloped capital markets and non-commercial players such as self-help groups, welfare organisations and co-operatives typically lack access to it.
- Regulatory issues concerning capital requirements and the role of the insurer can also constitute a problem for micro-insurers – especially if they are non-commercial actors: (i) Minimum capital requirements generally aim at encouraging financial stability; however, if capital requirements are set too high, insurers are unwilling to offer low-premium policies, since only a large business volume can ensure a sufficient return on investment. Also, they may impose significant barriers to market entrants willing to offer microinsurance products. (ii) The insurers’ ability to offer microinsurance is often limited as a result of overly rigid insurance-market regulation: sometimes, for example, the integration of insurance products with other financial services (credit, savings) is restricted or the conditions for selling insurance contracts are too difficult to be met by MFIs and NGOs.
- Finally, microinsurance requires also socio-cultural acceptance. The prevailing values and norms of the respective society should not be in contradiction with the mechanisms underlying insurance; and even if insurance as such is accepted, care must be taken to design concrete microinsurance schemes in a way that does not offend any major group of society. For example, conventional insurance in general can be at odds in several aspects with Islamic law, the *šari‘a*, but it is still possible to organise insurance, even in Islamic countries, provided that it follows the guidelines of *takāful*.⁵³

E. POTENTIAL OF MICROINSURANCE

Microinsurance is a promising tool for improving the social protection of low-income earners in low and middle-income countries. It may have beneficial effects for consumers, the providing institutions and the respective economy as a whole.

- *Consumers*: Microinsurance offers the opportunity for low-income earners to protect themselves at affordable premium levels against major risks. According to a recent literature survey, it thereby prevents households from selling assets when they are hit by a risk, from taking children out of school and sending them to work, from accepting unsafe occupations to survive and from taking loans at excessive interest rates. In contrast, microinsurance help member households to save, to invest and to use health treatment facilities. Finally, under certain conditions, it contributes also to strengthening the position of females in society and to reduce income inequalities.⁵⁴

In addition, microinsurance can foster the awareness of actual policy holders but also others of the risks they face in their lives and thereby have a demonstration effect that induces on the long run all households to reconsider their risk management strategies. Finally, successful microinsurance projects might make commercial insurers recognise that low-income earners are an interesting target group despite their limited capability to pay for insurance – at least because they constitute a huge mass of people in low and middle-income countries and ultimately turn to this segment of the market i.e. offer more products to low-income earners.

- *Insurers*: The providers of microinsurance gain access to new markets and clients and improve their national reputation. Moreover, the population, in general, in this way grows more accustomed to the concept of insurance, gaining confidence in commercial insurers.

53 Cf. Loewe et al., 2001, p. 54; Patel, 2007.

54 Cf. De Bock and Ontiveros, 2013.

- *Agents (in the 'linking' or 'partner-agent model' of microinsurance):* Potential agents, such as e.g. self-help groups, welfare organisations, co-operatives, MFIs, retailers, telephone companies etc. need intensive training before they take an active role in the provision of microinsurance. This training and their new experience with marketing financial market products can contribute to building these organisations' capacities and ultimately strengthening civil society at large.
- *The national economy:* Microinsurance can boost the public discussion over the role of the state in social protection. As a result, governments might see themselves confronted by a rise in pressure to tackle the problem of widespread vulnerability through reforming social insurance and assistance schemes and extending their coverage.⁵⁵ In addition, microinsurance might have a very positive effect on the behaviour of low-income earners: encourage investment in physical, human and social capital and thereby boost growth where it is most direly needed: in micro and small enterprises within the informal economy.

There are, however, also limits to the potential of microinsurance:

- It addresses vulnerability rather than chronic poverty. Microinsurance schemes (like social insurance schemes) are financed by their members' contributions and they are intended to mitigate possible future downturns in the income and unexpected rises in the essential spending of their members. They are thus a social protection instruments for low-income earners who cannot spend more than a small amount for their own social protection but certainly not for the ultra-poor who cannot even afford the most basic of their current consumer needs – let alone make provisions for future social needs. Microinsurance can therefore never be a substitute to tax-financed social transfer schemes, which are the only instruments being able to provide support to the absolute poor.
- In addition – again unlike tax-transfer schemes but this time also unlike social insurance systems – microinsurance schemes cannot redistribute funds from rich members of society to the poor. This weakness is due to the fact that enrolment with microinsurance is normally voluntary. Once micro-insurers start to cross-subsidise the benefits provided to poor policy holders from the contributions made by more affluent policy holders, they are at risk to lose all of the wealthier and attract only the very poor in their respective region.
- Microinsurance is also not capable to reach out to larger parts of the population in low and middle-income countries. In 2007, microinsurance schemes did not cover more than 12 % of the population in any low or middle-income country of the world with the single exception of Peru. This pattern might change to some degree over time, but many experts are convinced that microinsurance will never reach a majority of the population even under the most optimistic assumptions.⁵⁶
- Microinsurance is able to protect low-income earners against some of their most serious risks – but certainly not against all of them. One reason is that low-income earners may be able to pay for one or sometimes even two products covering some of their most threatening risks but only very few of them at utmost would be able to buy an insurance contract for each of their risks. The second reason is that microinsurance cannot provide reasonable protection against all risks that may be of concern for low-income earners. Micro life, work-disability and index weather insurance can be offered while micro health, liability or pension insurance constitutes a very serious challenge.⁵⁷

As a result, microinsurance can never compete with social transfer schemes and is also only a second-best option under normal circumstances in direct comparison with social insurance. Membership of the latter can be prescribed by law, making redistribution among the insured possible. The same health insurance package can then, for example, be sold to poor and rich members through the partial financing of payments to poor members from the contributions of the rich. Moreover, social insurance schemes give their members

55 A recent publication by the ILO's Microinsurance Facility shows how strong this leveraging effect can be: Kimball et al., 2013.

56 Cf. Roth et al., 2007.

57 Cf. Deblon and Loewe, 2012, p. 51.

more legal certainty, since they are backed by the state, which must ultimately take responsibility for their liabilities.

Nevertheless, microinsurance can be a very helpful and important social protection tool – especially in cases where the state is unable to build up social insurance schemes at all or to extend them to informal-sector employees.

In addition, it can also play a role where social insurance exists but is not attractive for informal sector employees. This may be due to the fact that the risks these schemes cover constitute a major threat for urban formal sector employees only while farmers and people in the informal urban sector are much more vulnerable to other risks such as e.g. harvest failure, animal pest or terms-of-trade shocks. In such a case, microinsurance can offer, for example, weather index insurance. Likewise the contribution rates may be too high or payment procedures may not be well suited for people with irregular income. Furthermore there may be a general mistrust in systems administered and organized by public institutions. In all of these cases, microinsurance schemes can be built up in parallel and as an alternative to social insurance with the effect that every population group and every household can opt for the kind of social protection instrument that suits best to its specific needs and preferences: social insurance, microinsurance or commercial insurance.

Finally, microinsurance can also complement social insurance – for example where public social insurance schemes provide only partial protection. Viet Nam, for example, has a voluntary social health insurance scheme for informal sector employees but it is covering only health treatment costs and not for example the costs of bringing ill people to hospital. It is thus almost useless for poor households in remote rural areas, where the next hospital is far and health transportation costs are high. The government has therefore set up some microinsurance schemes, which are providing, among other things, compensation to their members for health transportation costs. In the same way, micro pension insurance might top up the pensions granted to its policy holders by social pension insurance schemes. And microinsurance can provide protection against risks that are not covered at all by social insurance – for example droughts, animal diseases, floods or hail.

F. MICRO-TAKĀFUL

Some microinsurance providers seek to comply with the requirements of Islamic law, the *šarīʿa*: They are providing *takāful*, which is a form of insurance that Islamic scholars (*ʿulamā*) consider permissible for Muslims. It is based on the principles of co-operation (*taʿāwun*) and mutual support (*tabarruʿ*) and therefore similar to conventional mutual insurance. The word literally means to mutually take care of another. And some *ʿulamā* state that *takāful* has already been practiced by the early Muslim community in Mekka and Medina, who extended the practices of the then widespread *ʿaqīla* system – which is the obligation of people in a tribal society to come to the financial rescue of other members of the same tribe – to the Islamic community (*umma*).⁵⁸

Adherents of *takāful* say that conventional insurance is unlawful (*ḥarām*) for Muslims for four reasons:

- *Maysir* (gambling) may be encouraged by insurance products such as life insurance. For example, a person could die right after signing a life insurance contract and paying just the every first premium and her/his dependants will then receive a benefit exceeding by far the contribution.
- The benefit conditions may be unclear with the effect that policy holders suffer from *ḡarar* (uncertainty) regarding the expected gains and the problem is even more serious for products with a savings component such as life and pension insurance.

58 Cf. Patel, 2007.

- Often, interest (*ribā*) is paid on the reserves / funds of policy holders thereby making money on money.
- Reserves are often invested in immoral or impure business activities such as gambling (*maysir*), the production of or trade with alcohol or pork meat or non-interest free banking.⁵⁹

Unlike in the case of conventional insurance, the philosophy underlying *takāful* is not that an insurer takes the risks of policy holders against a premium. Rather, policy-holders co-operate in order to contribute to their common good: to help the ones that need assistance. In theory, one part of their premiums is seen as a donation (*tabarruʿ*) to today's needy, while another part may be saving (*mud'āraba*) for future needs.

Further, the insured participants themselves are the owners of the fund ('*ta'āwunī* principle'). They are thus also the insurer and therefore share in the gains but also in the losses of the scheme. Nobody can derive advantage at the costs of others.

Any company that is organising a *takāful* scheme is called *takāful* 'operator' (*wakīl*) rather than 'insurer' because it is only moderating between the members ('*wakāla* principle'). In the conventional insurance business profit can be made by (i) bearing the risks of policy holders, (ii) benefiting from spread (i.e. the fact that the reserves can be invested at rates of return that are higher than those to be paid to policy holders), (iii) administering the products and financial flows and (iv) marketing and servicing. But a *takāful* operator can only take a lump-sum fee for its services and, hence make mainly profit with the latter two.

The reserves of *takāful* schemes have to be used in a *šarīʿa* compliant way. For example, they may not be invested in gambling institutions, businesses that produce or trade with alcohol, businesses that sell weapons or assets that pay fixed interest (*ribā*).

Likewise, the benefits granted to members may not be calculated on the basis of a fixed interest rate (*ribā*).

Any kind of uncertainty in expectations – for example regarding the level and time of contributions and benefits – must be eliminated. All actors must do every act of participation at utmost sincerity of intention (*niyya*) and with full knowledge on the consequences. They must therefore have legal capacity and be mentally fit. And the insurance contracts must be very clear, in easy and understandable language and not contain too many exceptions.

And finally, the scheme must be supervised by a *šarīʿa* board in addition to the usual board of directors.⁶⁰

In practice, there are four models of how *takāful* can be organised:

- The co-operative (*ta'āwunī*) model refers to true mutual insurance schemes that are organised by the members themselves.
- The non-profit model refers to *takāful* schemes that are organised by a third party, which is, however, not charging any fees for its services and which is typically either the state or a public entity or a third-sector welfare organisation.
- The *wakāla* model refers to schemes that are organised by an agent against a fix fee.
- And the *mud'āraba* model refers to an arrangement where the profits are shared at a specific rate (e.g. 50:50 or 70:30) between the insured and the agent.⁶¹

59 Cf. Hussain and Pasha, 2011; Khan, 2011; Swartz and Coetzer, 2010.

60 Cf. Brugnoli, 2013; Haryadi, 2006; Patel, 2007; Swartz and Coetzer, 2010.

Some Islamic scholars, however, insist that the *mud'araba* model is not in accordance with the philosophy underlying *takāful* and should therefore not be practiced any more.⁶² As a consequence, Saudi-Arabia has prohibited all *takāful* programmes except for the strictly co-operative (*ta'āwunī*) ones.⁶³

As such, *takāful* does not particularly aim at protecting low-income people, and it faces probably no less difficulties in that regard than conventional insurance. However, just like the microinsurance concept has been developed since about 20 years ago as a response to the difficulties of conventional insurers, micro-*takāful* schemes have been set up since about ten years ago in response to the difficulties of ordinary *takāful* schemes in reaching out to the poor.

According to empirical studies, these schemes do not tend to be inferior to non-*takāful* microinsurance in terms of efficiency, equity and sustainability. But they are definitely better acceptable to many people in Islamic countries. And it seems that vertical distribution (in favour of less affluent members of the same scheme) can be more easily integrated into micro-*takāful* than into non-*takāful* micro insurance schemes – probably because the members of *takāful* schemes in general tend to be particularly religious and hence ready to share some of their savings with other people who are more in need than themselves.⁶⁴

Typically, micro-*takāful* schemes are offering credit life or funeral insurance – sometimes also life or work-disability insurance. Often, they are organised along the lines of the partner-agent model outlined above – that is by professional *takāful* operators or non-*takāful* insurance companies but in partnership with self-help organisations, co-operatives or welfare organisations, which operate close to the target group of low-income earners and therefore know well about this group's specific needs and problems.

Experience furthermore tells that micro-*takāful* works best

- if the *takāful* operator and its local agent agree jointly on the choice of the product and its design,
- if there is a high degree of trust and transparency between both organisations,
- if the design of products is as simple as possible,
- if every product covers only one single risk,
- if only group insurance contracts are offered or the collection of premiums from one region can be synchronised and
- if the staff of all involved organisations as well as all customers are well informed on how insurance in general and *takāful* in particular work.⁶⁵

The first modern *takāful* company – the Islamic Insurance Company of Sudan – was founded in 1979. The first micro-*takāful* scheme – the Agricultural Mutual Fund of Lebanon – was established in 1997. It provides health insurance coverage for costs not covered by the public Lebanese social health insurance scheme (which reimburses only 85 % of hospital fees). It covers 5000 families and it is open to all religious groups. In 2005, there were about 50 *takāful* companies altogether world-wide but conventional insurers can also offer *takāful* products and quite several of them have already discovered that business field.⁶⁶

61 Cf. Patel, 2007.

62 Cf. Fisher and Taylor, 2003.

63 Cf. Gönülal, 2012, p. 18.

64 Cf. Mohieldin et. al., 2011.

65 Cf. Erlbeck et al., 2011; Haryadi, 2006.

66 Cf. Patel, 2007.

III. FRAMEWORK CONDITIONS OF MICRO INSURANCE IN WESTERN ASIA

A large group of people in Western Asia has no access to formal social protection schemes except health schemes. They must therefore rely on informal support from relatives, neighbours, friends or colleagues or within co-operatives if they are getting old, work-disabled, unemployed or bankrupt or when the main bread-winner of a family dies. But traditional and informal risk management arrangements are becoming weaker and weaker, they are neither reliable, nor sufficient in scope and scale. As a result, more than 80 % of the population in Yemen is highly vulnerable to manifold risks, more than 50 % in Lebanon, Iraq and the West Bank and Gaza Strip and more than 40 % in Jordan. In the Gulf states, too, large parts of the population are highly vulnerable; mainly, these are foreign migrant workers – but also increasingly nationals. As a result, there is considerable potential for microinsurance. However, the legal and institutional framework conditions for the provision of microinsurance are not easy in all countries of Western Asia.

This chapter portrays the landscape of social protection schemes in Western Asia other than microinsurance and assesses the framework conditions of microinsurance.

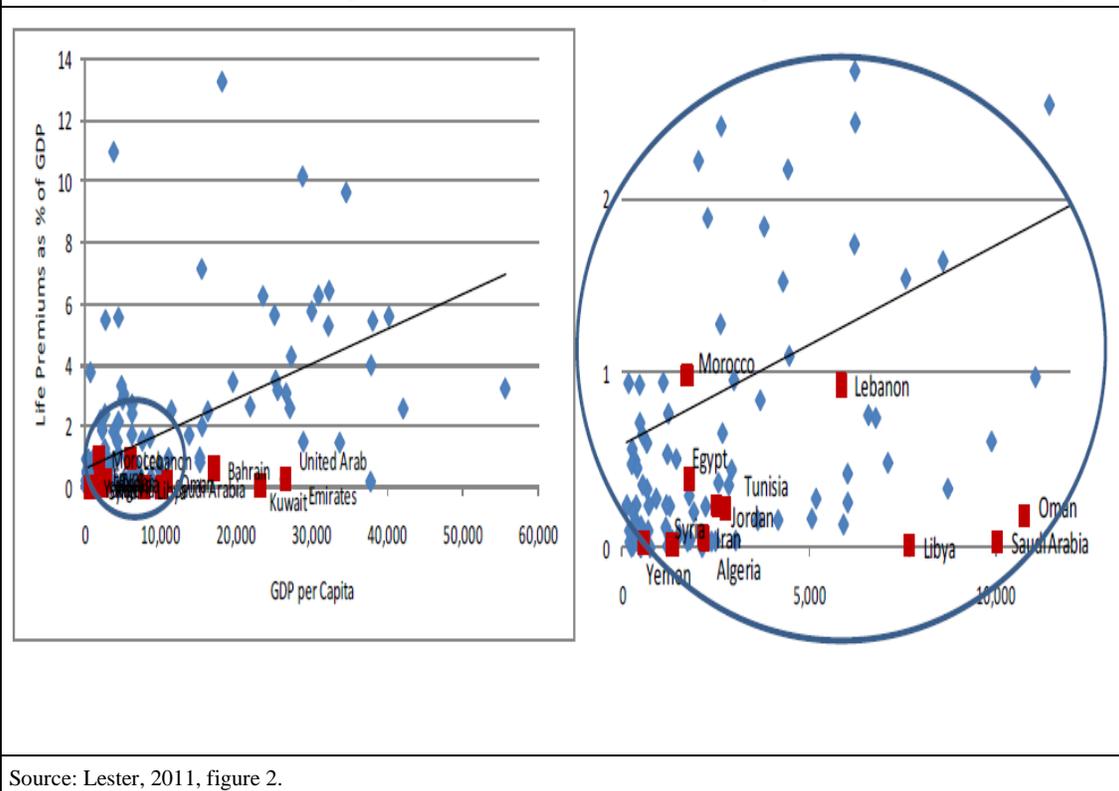
A. SOCIAL PROTECTION IN WESTERN ASIA

Social protection schemes in Western Asia suffer from four major weaknesses: (i) the relative weakness⁶⁷ of non-state actors in the provision of social protection (see for example Figure 3 on the role of private insurance), (ii) the preferential treatment of the urban middle classes by the public schemes, (iii) significant gaps in coverage for most risks and large parts of the population, and (iv) deficits in terms efficiency and sustainability. These weaknesses have been discussed at length in literature.⁶⁸

67 Western Asian states spend between 8 and 20 per cent of GDP on social protection (including consumer subsidies), cf. Hoftijzer, 2006; Loewe, 2010a, table A11. At the same time, private (commercial) insurance against risks such as illness, old-age, death and work-disability accounts for less than 0.5 % of GDP of Western Asian countries on average – much less than in other world regions except sub-Saharan Africa (Jordan and Bahrain are the main exceptions within Western Asia), cf. Lester 2011, tables 1 and 2 and box 1; Loewe 2010a, table A10. As a result, for example, private health insurers cover only about 4 % of the total costs of health care costs in Jordan, 12 % in Lebanon and 9 % in Saudi-Arabia, cf. Drechsler and Jütting, 2007, p. 509. Likewise, the role of private charity is often over-estimated. Its total volume is even smaller than in other developing regions. Of course, members of the core family support each other wherever they can. But even the mutual support among members of the extended family has apparently lessened – let alone the assistance given to other people. Surveys conducted in the late 1990s have already shown that only 1 % of Jordanians were receiving transfers from other families in addition to another 12 % who reported receiving assistance from relatives, while in Palestine, 8 % of all households stated that they were receiving transfers from non-relatives, while 10 % said that they were receiving from relatives (extended family). 18 % of all Yemeni households reported that they were getting assistance from other household (relatives or non-relatives) but the respective share was a bit higher for households below the national poverty line (28 %). These shares are very low in comparison with the respective share of the Indonesia (58 %), Jamaica (53 %), Nepal (45 %), Panama (38 %) or Kirgizstan (36 %), cf. Blomquist, 2006; Loewe, 2010a, p. 90, table A9.

68 Cf., for example, Loewe, 2013a; Loewe, 2013b; Loewe, 2014.

Figure 3: Private life insurance penetration of MENA countries in comparison with other world regions



Source: Lester, 2011, figure 2.

The main issue for the purpose of this study is that large parts of the population in Western Asian countries have no access to reliable social protection schemes covering relevant risks such as old age, work-disability, the death of the main bread-winner of a family, unemployment etc.

The main exception is social protection against health risks. At least formally, Western Asia fares very good in international comparison in this regard, which is mainly due to the wide spread of tax-financed health systems in the region. At least all citizens have a right in eight of Western Asia's 12 countries to be treated for free in the government's health systems.⁶⁹

Of course, this does not correspond to an effective 100 % coverage because some people in remote areas may live at such distance from the next health station that they cannot make use of their right on free health treatment. According to estimates, this is the case for 1-5 % of the inhabitants of Saudi-Arabia and Jordan, 5-15 % in the Oman and the UAE and up to 10 % in Syria (prior to the current civil war) (see Table 2). In addition, in some countries, patients have to pay co-payments for their health treatment. Even if these are moderate at first glance (such as e.g. in Jordan), they constitute considerable barriers for access to medical services for many people with limited income.⁷⁰ And finally, the meaning of coverage is also questioned by the fact that the quality of the services offered by the public health systems in Western Asia varies substantially between and within countries.⁷¹

69 Cf. Loewe, 2010a, table A18.

70 Cf. International Labour Office, 2009, p. 6; Loewe, 2013b, p. 154.

71 Cf. United Nations Development Programme and Arab Fund for Economic and Social Development, 2002, p. 41; World Bank, 2002, pp. 58-60.

Table 2: Estimated cumulative coverage rates of formal (public and private) social protection schemes in Western Asia with regards to key risks

Country	Key risk protection as a share of the total population:				Estimated share of total population benefitting from social assistance or other tax-financed cash transfer programmes
	health risks (treatment, not wage replacement)	old-age, work-disability, death of wage-earner (wage replacement)	unemployment (wage replacement)	children (family allowances)	
Bahrain	25-40 % (100 %)*	30-40 %	...	–	4 %
Iraq	20-30 %	30-35 %	–	–	...
Jordan	65-75 %	50-60 %	–	–	5 %
Kuwait	20-40 % (100 %)**	20-30 %	–	–	...
Lebanon	50 %	25-35 %	–	38 %	...
Oman	90-99 %	10-20 %	–	–	...
Palestine (only West Bank)	90 %	35-45 %	5 %	–	...
Qatar	60-70 % (100 %)*	5-10 %	–	–	...
Saudi-Arabia	30-50 % (100 %)**	20-30 %	–	–	...
Syria (prior to civil war)	90-100 %	30-40 %	–	–	...
UAE	20-35 % (100 %)**	5-15 %***	–	–	...
Yemen	20-30 %	10-15 %	–	–	2 %
<i>For comparison: Data for North African countries</i>					
Algeria	100 %	70-80 %	80 %	...	16 %
Egypt	99 %	55-65 %	18 %	–	4 %
Libya	100 %	80-90 %	80 %
Morocco	15-25 %	20-25 %	–	22 %	1 %
Tunisia	90-95 %	75-85 %	44 %	58 %	10 %
Sudan	65-75 %	8-15 %	–	–	...
<p>* The figure in brackets refers to the coverage of the national population (excluding migrant workers).</p> <p>** The figure in brackets refers to the coverage of the national population (excluding migrant workers). In the future, migrant workers will be obliged to enrol with a health insurance scheme.</p> <p>*** Almost 80 % according to International Labour Office, 2009, figure 1.</p> <p>Source: International Labour Office, 2009; the Monthly, 2014; Loewe, 2010a, tables A15, A18, A19 and A20; Loewe, 2014, table 3.1.</p>					

The most restrictive limit to overall social health protection coverage is however set by the fact that the public health systems of Bahrain, Kuwait, Qatar, Saudi-Arabia and the UAE do not accept migrant workers for free. In addition, in Jordan, Lebanon and the West Bank and Gaza Strip only members of private and social health insurance enjoy free health treatment while all others have to pay moderate fees (see above).

As a result, almost one third of all health care in Western Asia is still financed on average by spontaneous out-of-pocket spending. The treasury finances 59 % on average but this share ranges from a low 20 % in Lebanon to more than 80 % in some Gulf countries. On average, only 5 % of gross national health care spending are financed by social health insurance schemes (the respective share being 20 % in Jordan and 6 % in Lebanon, but 0 %, among others, in Iraq, Qatar and the UAE). At the same time, only 7 % of gross national health care spending are covered on average by third party payers such as commercial health insurance and other pre-paid schemes (the respective share being 17 % in Lebanon but 0 % in Iraq and Syria). That leaves 29 % of the costs on average to be paid on average out of pockets: This position includes private medical fees, excess payments and user fees as well as additional payments (tips, bribes etc.). The share of out-of-pocket spending on total health care spending is always a good indicator for the extent of social health protection of a population. Within Western Asia, it is highest in Yemen (78 %), Lebanon (57 %), and Syria (51 % before the civil war) (which indicates a poor performance in social health protection) and lowest in the gulf countries (12-17 %) (which indicates a very good performance in social health protection).⁷²

In any case, coverage rates of formal old-age, work-disability and survivorship protection schemes are significantly lower on average than the coverage rates of health protection schemes. Jordan is probably the only country in Western Asia where more than 50 % of the population are covered by a formal contributory or non-contributory pension scheme. In most other countries, the ratio is between 25 and 40 %, and in Qatar and Yemen it is even lower. On average, about 30 % of the population are enrolled in a formal pension scheme, which is definitely more than in sub-Sahara Africa but less than in Latin America and the Caribbean, Eastern Europe and Central Asia and South Eastern Asia (see Table 2). The main reason, again, is that large groups of employees are excluded from coverage by law in most Western Asian countries: in particular temporary employees, self-employees, domestic workers, contributing family members and foreign migrant workers (see Table 3). In addition, many workers are not registered with any public social protection schemes although membership is mandatory, or they are registered but fail to pay contributions (regularly) – with the effect that effective coverage rates are even lower than legal coverage rates.⁷³

No social insurance scheme in Western Asia except the Lebanese generates family grants.

72 Cf. World Health Organization, 2013.

73 Cf. United Nations, Economic and Social Commission for Western Asia, 2014, p. 18; Loewe, 2010a, pp. 108-109, 168-169.

Table 3: Legal coverage of major groups of employees by public old-age, work-disability and survivorship social protection schemes in Western Asian and Northern African countries

	Military	Civil servants	Other employees in public administration	Employees in state-owned enterprises	Private sector employees outside agriculture with a permanent working-contract	Temporary employees	Employees in agriculture	Employers and the self-employed	Domestic workers	Foreigners
Bahrain	x	x	+	+	+/- ^a	—	+/- ^a	(+)	—	+
Iraq	x	x	x	x	+	—	+	—	—	+
Jordan	x/+ ^b	x/+ ^b	+	+	+	—	+/-	+ ^c	—	+
Kuwait	x	+	+	+	+	+	+	(x)	+	—
Lebanon	x	x	x	x	+	—	+	—	—	—
Oman	x	x	x	+	+	—	+	—	—	—
Palestine (here: only West Bank)	x	+	+	—	—	—	—	—	—	—
Qatar	+	+	+	—	—	—	—	—	—	—
Saudi Arabia	x	+	+	+	+	—	—	(+)	—	—
Syria	x	+	+	+	+	—	+	+	—	+
UAE	x	+	+	+	+	—	—	—	—	—
Yemen	x	x	x	x	+	—	—	—	—	+
<i>For comparison: North African countries</i>										
Algeria	x	+	+	+	+	+	+	x	+	+
Egypt	x	x	+	+	+	x	+	x	x	+
Libya	x	+	+	+	+	+	+	+	+	+
Morocco	x	x	x	x	+	+/-	+/-	—	—	+
Sudan	x	x	x	+	+	+/-	+	+/-	—	+
Tunisia	x	x	x	x	+	+	x	x	x	+
<i>Notes:</i>										
+										
x										
—										
+/-										
(+) may enrol on a voluntary basis, but have to pay entire contribution (employer's and employee's share) except in Iran, where the employer's share is financed by the government										
a only people employed by enterprises with at least five employees										
b civil servants recruited after 1994 and military staff recruited after 2003 are required to pay contributions to the Jordanian social insurance scheme, while those recruited earlier are entitled to non-contributory pensions										
c compulsory since 2010										
d For the majority of MENA countries, the ILO (2010) estimates the share of active contributors to a pension scheme in the working-age population at only between half and three quarters of the percentages displayed in the table. This difference is not due to a contradiction. Rather, it results from the fact that female labour force participation rates are very low in MENA countries and the portion of people who are not in the labour force because they have given up looking for employment is very high										

e	For some countries, however, such as Bahrain, Egypt, Jordan and Tunisia, the difference is even larger. Here, it becomes obvious that the ILO (2010) estimates include only members of contributory pension schemes and not those who are entitled to a non-contributory pension such as military and civil servants. This is particularly apparent for Jordan, where, according to the ILO (2010) estimates only 21.2 per cent of the working-age population were contributing to a pension scheme in 2007 but more than 30 per cent of the working-age population were covered alone by the non-contributory programmes for army people and civil servants. These have stopped in the meantime to accept new members but their old members are still covered under the old provisions
f	The ILO (2010) estimates the effective coverage rate of the Libyan pension schemes at no more than 38.1 per cent of the working-age population in 2003, while Robalino assumes that as much as 90 per cent of the Libyan labour force are covered not yet including the armed forces (another five per cent of the labour force), which are covered by a separate pension scheme, cf. Robalino 2005, p. 54
g	The ILO (2010) estimates that only 2.9 per cent of the Sudanese working age population were actively contributing to the country's pension insurance scheme

Source: Loewe, 2014, table 3.1.

No country except Jordan has social maternity insurance.

And with the exceptions of Bahrain and Jordan no country in Western Asia has an unemployment insurance scheme so far. Jordan has an unemployment protection scheme since recently but it is based on individual accounts and hence does not allow for either vertical or horizontal redistribution. The Kingdom of Saudi-Arabia has decided to establish such a scheme during the months to come. The 5 % Palestinians who enjoy membership in an unemployment insurance scheme are the inhabitants of East-Jerusalem who are covered by the Israeli scheme.

Finally, perhaps even worst, no country in the region has a rights-based social assistance scheme – meaning that citizens have a real chance to enforce social assistance entitlements by legal action. All countries have some kind of cash transfer schemes, which are meant as a basic social protection tool i.e. to address poverty in general rather than individual risks. However, the budget of these schemes is negligible in most countries and the number of beneficiaries does not exceed 20 % of the number of people living in absolute poverty in any single country. In addition, typically, the transfers paid out to beneficiaries are very low. And even if a household is eligible for support according to a cash transfer's own targeting criteria, it has no possible to sue the support in. Normally, new social assistance entitlements are only given once other social assistance beneficiaries have been deleted from the files.⁷⁴

Several countries in Western Asia have multiple programmes – each with a very tiny budget but different targeting conditions and modalities of payment – which risks overlapping support to some households and the complete exclusions of others. In addition, the selection of beneficiaries is not always undertaken in a transparent process and not always adjusted in a timely manner if economic conditions of beneficiaries change. Against the background of limited budgets for social assistance this may result in the exclusion of a substantial numbers of households who would in principle be entitled to social assistance. And finally, the main programmes tend to focus on households without adult able to work male members. They contribute thus to the social protection against work-disability and the death of a male bread-winner but not against unemployment.⁷⁵

⁷⁴ Cf. Blomquist, 2006; Loewe, 2010a, pp. 127-129.

⁷⁵ Cf. International Labour Office, 2009.

B. THE INSTITUTIONAL FRAMEWORK FOR MICROINSURANCE IN WESTERN ASIA

The main challenges for the spread of microinsurance schemes in Western Asia are (i) that the insurance, co-operative and NGO laws of several countries are rather restrictive, (ii) that most co-operatives and NGOs in the region suffer from weak administrative and technical capacities, (iii) that co-operation between commercial and third-sector organisations is hampered by serious mutual mistrust and (iv) that many citizens continue to expect solutions for their socio-economic problems to come from the government rather than from themselves.

Some aspects of the framework conditions for microinsurance in Western Asian countries are comparatively favourable:

- Half of the countries in Western Asia are middle-income countries and the other half are even high-income countries. Financial constraints should thus not be the main obstacle for the spread of microinsurance.
- A large majority of the population in all countries except Yemen is urban with the effect that transaction costs relating to the marketing and servicing of microinsurance are not too high for a large part of the population.
- Seven countries in the region (Jordan and the Gulf countries) provide fairly stable economic and political framework conditions for the development of microinsurance (low inflation, no radical changes in economic policies, limited levels of crime, state power monopoly, very low risk of war, civil war, riots or coup d'états). The framework conditions are less stable in Lebanon, Yemen and Palestine but still allow for the provision of most kinds of microinsurance (it may be difficult to provide coverage of long-term risks such as e.g. old-age). And the provision of microinsurance is currently impossible in Syria and parts of Iraq because of violence and war.
- The majority of the population can at least read and has enjoyed enough education to understand how insurance works if this is well enough explained to them.
- The incidence of endemic and other commutable diseases is limited, and so is the spread of HIV/AIDS.

A first major weakness of the framework conditions in Western Asian countries is that their private insurance markets still tend to be underdeveloped for different reasons (overregulation, dominance of a few large providers, weakness of capital markets etc.). According to Richard Leftley (MicroEnsure), competition is still weak in most countries of Western Asia with the effect that the main providers of microinsurance do not perceive any need to diversify and watch out for additional markets:

*Penetration is expected to remain low in the short to medium-term. Insurance companies in the region are not motivated to go after the mass market, and instead are securing core business.*⁷⁶

Of course, this bottle-neck could be by-passed by MFIs, NGOs or co-operatives offering microinsurance on their own. But most NGOs and co-operatives in Western Asia do not have the potential for such an endeavour. The number of powerful NGOs is very limited; as a trend only the big religious (Christian as well as Muslim) charity organisations have the capacity to offer a financial service for longer and to reach out to a larger part of the population. The bulk of NGOs in the region are grass-root initiatives that are run by very few activists for whom even the limited task to distribute and service only an insurance product (like in the partner-agent model) would be too challenging. Richard Leftley (MicroEnsure) is convinced:

76 Richard Leftley, chief executive officer of MicroEnsure in an interview: Mena Insurance Review, 2012.

*There is huge market potential for microinsurance. However, one of the main challenges as it develops will be distribution. The key problems will arise not necessarily through the insurers, but through the current lack of organisations that will distribute the products.*⁷⁷

A study⁷⁸ conducted by the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) in 2001 on the potential of microinsurance in urban Jordan concluded that the role of an agent in the provision of microinsurance can only be played by either of the four sustainable MFIs (Microfund for Women, Ahli Microfinancing Company, Co-operative Housing Foundation and Jordan Micro Credit Company, which is now Tamweelcom) or either of the four royal welfare foundations (Noor al-Hussein Foundation, Jordan River Foundation, Jordan Hashemite Fund for Human Development and Queen Alia Welfare Fund) – but not by either of the country's NGOs. And in fact, the four best known microinsurance schemes that have been set up in Jordan since then are run by the Microfund for Women, by Tamweelcom, by the Noor al-Hussein Foundation and by the Jordan Hashemite Fund for Human Development (see Chapter 4).

At the same time, Western Asia has also only a weak co-operative movement. There are some small co-operatives in several countries of the region but the large majority of them are agricultural purchasing, marketing or utilities co-operatives, a few are housing co-operatives and even much less are credit co-operatives. The number of the rest (including savings co-operatives) does not exceed thirty in any single country.⁷⁹

For decades, governments in the region have promised to provide social welfare as a substitute for political participation. And at least until the mid-1980s, they were also quite well able to fulfil this promise. At the same time, the legal scope for co-operatives, informal self-help groups and non-governmental welfare organisations is limited. Therefore, co-operatives and other grass-root organisations are still weak in these countries, and people tend to expect social support to come first and foremost from the government. When Jordanian households were asked by the DIE research team in 2001⁸⁰ which actor might do anything to ease the management of their risks, almost all mentioned only the state while people in Latin America tend to consider first of all grouping together and solving their problems jointly and if necessary without help from outside – or as Patel (2005) has put it:

*Unfortunately, there is limited presence of the cooperative and mutual movement in the Arab World, it is the responsibility of organizations such as the ICA and ICMIF to increase awareness and promote the benefits of popular-based institutions.*⁸¹

In addition, market regulation causes serious problems for microinsurance as well. Insurance laws are meant to protect consumers and the insurance industry as a whole but they are somewhat outdated in several countries of Western Asia. As a result, they set rather tight restrictions for the provision of insurance – for example in terms of minimum capital requirements or the conditions for people taking key management positions – which non-commercial insurers can never fulfil. When the respective clauses were drafted – in some countries like Lebanon more than twenty years ago – nobody thought about microinsurance and its particular features.⁸²

Other insurance laws regulate the marketing of insurance products. In Jordan, for example agents and brokers needed to have until 2001 at least 15 years of experience with insurance before they could be accredited by the insurance regulatory commission. A condition of this kind would disqualify all third sector organisations from becoming an agent of microinsurance provision in the partner-agent model. Fortunately, the requirement was eliminated in the context of a legal amendment in Jordan in 2001, but similar provisions

77 Richard Leftley, chief executive officer of MicroEnsure in an interview: Mena Insurance Review, 2012.

78 Loewe et al., 2001.

79 Cf. Polat, 2010.

80 Loewe et al., 2001.

81 Patel, 2007, p. 17.

82 Cf. Andrew, 2012; Lester, 2011, pp. 9, 19.

continue to exist in the insurance laws of other countries in Western Asia. In Iraq, for example, insurance agents and brokers need a license to be issued by the regulator, which may be difficult for NGOs, co-operatives and self-help groups.⁸³

And some association, co-operatives and NGO laws are also a hindrance for microinsurance: Many of them prohibit, for example, NGOs from performing any kind of commercial activities – which may exclude the provision of insurance – and co-operatives are also not allowed to run insurance schemes in some countries such as e.g. Jordan.⁸⁴

The most important question however is how a country implements its insurance market regulation. Some countries – like for example Lebanon – have comparatively rigid insurance laws but interpret them in a very liberal and pragmatic way. Others, such as e.g. Yemen, have less strict laws but insurance providers never know how the existing rules are going to be interpreted because there is considerable scope for interpretation by officers in the regulating state agency. According to Dirk Reinhard (MunichRe Foundation), such deficits in the rule of law are always a strong disincentive for investors in the respective sector:

*The important thing is the support of the country's regulator, which is absolutely crucial. That is one of the key steps in the development of microinsurance, and if we have a dedicated regulator [...] that is the first important step of improving access.*⁸⁵

Finally, religious values and cultural norms are also often seen as an obstacle to the spread of microinsurance in Western Asia. In fact, many people in this part of the world mistrust commercial providers of financial products in general. And many Muslims believe that conventional insurance arrangements (be they offered by commercial, mutual or welfare organisations) do not conform with the principles of their religion.

However, as we have outlined above, there is a way to prevent these objections: Possibly, microinsurance has to be constructed as micro-*takāful* in large parts of Western Asia in order to be accepted by its target group.

Fortunately, according to the existing literature, the regulatory framework seems not to be significantly more restrictive for micro-*takāful* than for more conventional microinsurance.

Nevertheless, there is still an additional challenge it: Many countries – such as e.g. Lebanon or Jordan – lack an official accreditation for the use of the label '*takāful*' – with the effect that consumers cannot know whether a product that is sold as micro-*takāful* is in fact conform with the *ṣarīʿa*.

83 Cf. Andrew, 2012.

84 Cf. Loewe (2010a), pp. 215-216.

85 Dirk Reinhard, vice chairman at Munich Re Foundation, in an interview: Mena Insurance Review, 2012.

IV. PREVALENCE OF MICROINSURANCE IN WESTERN ASIA

A. PROVEN MICRO INSURANCE SCHEMES

Apparently, there is substantial potential for microinsurance initiatives in Western Asia: In most countries, the majority of the population is not covered by any formal social protection except health schemes and therefore highly vulnerable to risks. And governments have not conducted extensive efforts during the last twenty years to overcome this problem – for example by extending the coverage of social insurance or social assistance schemes – with the exception of Jordan, which has extended the legal coverage of social insurance to all employees (until 2005, only workers in companies with at least 5 employees had to enrol). In contrast, it appears that policy makers have not given enough priority to improving the socio-economic situation of the poorer halves of their populations, who are mainly migrant workers in the Gulf states and informal sector workers in the rest of Western Asia. In a situation of this kind, microinsurance is a promising instrument for limiting at least the current social problem... at least until governments become more active in social protection policies themselves.

Urban households would need in particular insurance against the work-disability and the death of the main breadwinner, unemployment and bankruptcy – in addition to property damage (fire, burglary, theft) and liability. This is the result of several surveys conducted in major towns of the Middle East.⁸⁶

For multinationals such as Zurich and AXA, which recently partnered with Grameen-Jameel Micro-finance to provide low-cost insurance in Western Asia, microinsurance is an essential part of expansion and can even be a viable business proposition.

Unfortunately, we lack systematic research on the main factors of vulnerability of rural households in Western Asia. In other world regions, they differ substantially from the main sources of vulnerability of urban households. In Ethiopia and Viet Nam, for example, the most threatening risks include illness but at least as much drought, flood, heavy rainfall, crop pest, livestock disease and price shocks.⁸⁷ At least for Jordan, there is evidence for significant demand in rural areas for livestock disease insurance.⁸⁸ And a study conducted by Commercial Insurance⁸⁹ in Lebanon with funding from the ILO found that there is demand for different kinds of agriculture insurance in Lebanon, as well.

In any case, microinsurance is not common in Western Asia – despite its principle potential. According to several comparative studies, the Middle East and North Africa in general, and Western Asia in particular, are the least penetrated part of the world in terms of microinsurance initiatives.⁹⁰ And this viewpoint is supported by the fact that there is hardly any mention of an existing microinsurance scheme in either country in Western Asia on internet, in journals or in magazines. This can have two explanations: Either there are indeed not more than two or three schemes on average in these countries. Or there are more schemes than the web and the literature mention, but most of them are so small or informal that they are not known except in their immediate area of activities.

For the purpose of this study, questionnaires were sent out to 255 co-operatives, insurance companies (including *takāful* providers), MFIs, Islamic development organisations, regulators, policy makers and other actors in order to find out who knows of providers of microinsurance in Western Asia. Only few addressees responded in any way, and the majority of these few stressed that they had never heard of any microinsurance initiative in their country.

86 Cf. Loewe, 2010a, pp. 176-178; Jordan, Ministry of Planning and International Cooperation, 2012.

87 Cf. Loewe and Hartig, 2008, p. 3.

88 Cf. Al-Kouri et al., 2009.

89 Cf. CGSI Consulting – Commercial Insurance, 2009.

90 Cf. Giesbert and Voss, 2009; Loewe, 2010a, pp. 21 ff.; Roth et al., 2007.

The first explanation is supported by McCord et al. (2013) who found that microinsurance was very much on the rise in the South and East of Africa but almost absent in the North of the continent.⁹¹ For example, while more than 30 million people were covered in 2012 by micro life or property insurance in Southern Africa and almost 9 million in Eastern Africa, only 0.4 million were covered in Northern Africa. Since Northern Africa is the immediate neighbour of Western Asia and very similar to it in many aspects, we can hypothesise that the incidence of microinsurance in Western Asia is similarly low. The authors of the study estimate that more than 50 % of the low-income population of the Republic of South Africa and Namibia are covered by a microinsurance scheme, and more than 5 % of the inhabitants of Tanzania, Ghana, Senegal, Swaziland and Zimbabwe have some coverage – but less than 0.5 % of those in Egypt, Sudan and Mauritania, and even less than 0.1 % of those in Morocco, Libya and Algeria.⁹²

Mukherjee et al. (2014) present very precise data on the coverage of microinsurance schemes in six Western Asian countries in their study⁹³ of the landscape of microinsurance in Asia and Oceania. According to them, 1.44 % of all people in Jordan have microinsurance, 0.12 % of all people in Lebanon, 0.08 % of all people in the West Bank and Gaza Strip, 0.01 % of all people in Kuwait and Oman and less than 0.01 % of all people in Yemen. However, questions arise to some of their calculations for Jordan because three Jordanian MFIs have already a total of 110000 credit life microinsurance customers representing about 8 % of all Jordanian households or 2.5 % of individuals at working-age, which would be a very high figure when compared with the data that we have actually collected. And this figure does not even include the microinsurance clients of several other known providers yet – nor of course those of unknown schemes. Nevertheless, these figures can be taken as another indicator for the assumption that microinsurance is in fact not very common in Western Asia (with the possible exception of Jordan).

Probably, there are different reasons for this phenomenon, but again, we can only speculate because no representative survey has ever been conducted on this question. At least, DIE's non-representative study⁹⁴ from 2001 on the potential of microinsurance in urban Jordan provides some evidence. It allows us to hypothesise at least that the deficits in the institutional frameworks of Western Asian countries that we have identified above can in fact explain why microinsurance is so rare in the region. This includes, according to the case study:

- restrictive insurance, co-operations and NGO legislation,
- deficits in the rule of law in public administration and jurisdiction,
- the low level of development of Western Asian countries financial and insurance markets,
- lack of interest among low-income people to co-operate,
- deficits in the capacities of third sector organisations (self-help groups, co-operatives, welfare organisations etc.) and
- significant mistrust between third sector / welfare organisation on the one hand and commercial players on the other hand.

The DIE study points also to the fact that some people in Jordan refuse insurance in general for religious reasons. However, it finally concludes that the reservation of orthodox Muslims should not be an impediment to the diffusion of microinsurance because it is possible to create microinsurance schemes applying the principles of *takāful*.

Still, some experiments with microinsurance have been made in the Western Asian countries – and it would not be exaggerated to say that literally all possible ways of providing insurance to low-income earners have been tried in Western Asia: top-down, bottom-up and linking (partner-agent).

91 Cf. McCord et al., 2013a.

92 McCord et al., 2013a, pp. 5, 9.

93 Mukherjee et al., 2014, p. 10.

94 Loewe et al., 2001.

pertise has been brought in from the ILO. New borrowers have to buy the product with their loan for a premium of about 1.5 US\$ per month. It is providing a hospitalisation per diem (of up to 15 US\$ per night), transportation to hospital and medication in addition to a wage-replacement allowance is obligatory for new borrowers since 2010.¹⁰⁰ In March 2013, the number of policyholders exceeded 22000.¹⁰¹

At the same time, Tamweelcom (the micro-finance branch of the Noor al Hussein Foundation) is offering a health insurance package in co-operation with Pharmacy1, which is covering only the costs of regular health check-ups and primary treatment in designated health care posts in Amman.¹⁰² The rationale might be to provide an incentive to customers to verify their health status regularly, thereby detect and treat illnesses at an early stage and become more health aware in life – which is certainly also good for the credit provider itself. So far, some 2000 of Tamweelcom's borrowers have also decided for the health insurance.

Another example for the partner-agent model is the life insurance scheme that National Insurance has set up in Palestine in 2009 (as partner) in co-operation with Planet Guarantee Social Business (as agent). The scheme had some 3000 customers in 2013 (see Table 4).

And the Jordanian Microfund for Women is also selling its credit life and work-disability insurance in co-operation with a partner, Jordan Insurance Company. Borrowers are obliged to buy the product together with the loan through a 0.11 % loading on the loan repay.¹⁰³

The partner-agent model is also used in several Western Asian countries to provide supplementary health, life and work-disability insurance to the employees of larger companies and to the members of professional associations – who are however definitely no low-income earners. In Jordan, for example, enterprises with a minimum of 100 employees are obliged to buy a group health-insurance contract for all of their employees from a commercial health insurance company. At the same time, professional associations in several Western Asian countries offer not only group health insurance but also group pension insurance to their members. The Engineers Association in Jordan, for example, covers automatically all members by a combined life and work-disability insurance, which is issued at a special group insurance contract price by Amman Insurance Company. In addition, the Engineers Association is offering a very attractive health and old-age pension insurance package on a voluntary basis.¹⁰⁴ Likewise, in Lebanon, among others, the Order of Engineers and Architects and the Lebanese Order of Physicians offer health and life insurance to their members.¹⁰⁵

However, these schemes are no real microinsurance schemes – even though they are constructed along the lines of the partner-agent model – because their beneficiaries tend to be the better-off even within the urban middle classes.

3. *Bottom-up initiatives*

Finally, there are also manifold examples for the mutual insurance model – ranging from rather formal to very informal ones. The Agricultural Mutual Fund in Lebanon is certainly one of the most formal ones; it is offering 'health plus insurance' i.e. reimbursing the costs of health care that the social health insurance scheme does not cover (it pays for example only 85 % of hospital fees). In 2008, the fund covered 5000 low-income families (with some 23000 family members) in 180 villages in Southern Lebanon but made

100 For more details on the product see online: <http://www.microinsurancefacility.org/hwg/products/care-giver-microfund-women> (accessed: 25 November 2013).

101 Cf. Amoudi, 2011; Morris et. al., 2010; Women's World Banking, 2013.

102 For further information see: <http://www.tamweelcom.org/news/tamweelcom-launches-free-health-insurance-its-customers> (accessed 25 November 2013).

103 Cf. Amoudi, 2011; Middle East Insurance Review, 2008.

104 Cf. Loewe et al., 2001, p. 36.

105 Cf. website of the Order of Engineers and Architects: <http://www.oea.org.lb/Arabic/LandingPage.aspx?pageid=142> (accessed 29 September 2014).

efforts to reach out to the whole country. The premium is just 10 US\$ per month and family but 50 % of the costs are still financed by a subsidy of the treasury. In addition, the Fund is reported to lack technical capabilities in insurance design and management as well as reliable re-insurance.¹⁰⁶

But the development of formal mutual health insurance funds in Lebanon started much earlier. The first ones were established in 1991 in the context of syndicates, professional associations, trade unions and other interest groups. Today, these funds are under the supervision and protection of the Ministry of Agriculture (rather than the Ministry of Economy and its Insurance Control Commission) provided that they have a minimum of 50 active members. A provision in the tax law that provides for a tax-break of the activities of these groups has led to the proliferation of mutual insurance funds in Lebanon with the effect that commercial insurance providers complain about a distortion in the level-playing field that hampered their competitiveness on the market.¹⁰⁷

On the very other end of the spectrum is a much larger number of very informal mutual insurance groups – including among others so-called family or kin associations (*ḡamaʿiyyāt ʿāʿiliyya*). According to Baylouny (2010), Jordan had 789 registered arrangements of this kind back in 2003, and the number has increased significantly since then.¹⁰⁸ In Lebanon there are about 1500, and at least some exist in Palestine, as well.¹⁰⁹ Presumably, the phenomenon exists in other Arab Middle Eastern countries as well but we lack evidence for this assumption. According to the DIE survey mentioned above, a fourth of all households in Eastern Amman were members of a family association in 2001.¹¹⁰ And the share is likely to have increased rather than decreased since then if Baylouny (2006) is right with her thesis that family associations serve their members as a private social safety net and have significantly spread after the former Middle Eastern welfare states have reduced their social spending in the 1990s.¹¹¹

According to Loewe et al. (2001), members of such family associations in Jordan typically pay a very modest monthly contribution of less than 1 US\$ for every fully employed male into a fund, which they share with the entire extended family respectively clan. And the fund grants financial support to members for weddings, births, studies or funerals.¹¹²

In addition, there are in all three countries – Jordan, Lebanon and Palestine – associations that function in the same way but are not based on kinship. In Jordan, most of these solidarity funds have been set up by Palestinians who have migrated to Jordan in 1948/49 or 1967 from the same village or town in Palestine. Each member household makes a limited annual contribution to a fund that provides financial aid to its members in specified cases.¹¹³ Typically, parts of the contributions are redistributed ‘horizontally’ between members – meaning like in any other insurance scheme: all members have a chance to benefit from the allowances granted by the fund if one of the insured events (e.g. illness, death, work-disability, wedding etc.) occurs. Another part of the contributions, however, is sometimes redistributed vertically – like in a tax-transfer scheme – and is meant from the beginning as a donation to the most needy members.¹¹⁴ This combination resembles the very early modern *takāful* schemes, which combined also insurance with charity elements.¹¹⁵ As a result, some of the solidarity funds in Jordan have been established as co-operatives while others are non-governmental charity organisations.¹¹⁶

106 Cf. Brugnoli, 2013; Kalra, 2010; Middle East Insurance Review, 2008.

107 Cf. Kronfol, 2002, p. 15.

108 Cf. Baylouny, 2010, p. 100.

109 Cf. Baylouny, 2010, p. 104.

110 Cf. Loewe et al., 2001, table A26.

111 Cf. Baylouny, 2006.

112 Cf. Loewe et al., 2001, p. 40.

113 Cf. Loewe et al., 2001, p. 40.

114 Cf. Baylouny, 2006, p. 355.

115 Cf. Khan, 2011.

116 Cf. Baylouny, 2006, p. 353.

Baylouny (2006) interprets the formation of solidarity associations that are not based on kinship relations as a step towards generalising social solidarity.¹¹⁷ The family associations do not differ substantially from traditional mutual support mechanisms in tribal societies where the individual identifies with her/his clan or tribe rather than social classes, geographical regions or even society at large. People are ready to pool their risks with other family, clan and tribe members and even share part of their income with poorer kinsmen. The modern family associations are little more than a formalisation of these mechanisms – the main advantage for members being that contribution rates and benefit conditions are codified. The second type of associations, however, is a bit more distinct from traditional social protection arrangements in that they are not restricted to persons with kinship relations. The fact that most of the solidarity associations are made up of people who have something in common (e.g. the historical living place in Palestine) could lead to the interpretation that simply kinship is understood very broadly by their members. However, one might also argue that the founders of the more open solidarity associations have sought for a substitute replacing traditional social units such as the clan or the tribe. In particular, Palestinians in Jordan must have felt a need to have some social unit to identify with because they are normally not organised in tribal structures like Transjordanians but also have difficulties to feel like integral members of a single Jordanian society. This question became, of course, even more pertinent when both the Jordanian state and the United Nations Relief and Works Agency for Palestine Refugees (UNRWA) reduced their social spending in the 1990s, and Palestinians in particular (faced increasing problems in managing their risks because they were less integrated into traditional structure like clans and tribes such as Transjordanians. At That time, the identification dilemma of Palestinians in particular became increasingly accompanied by a socioeconomic dilemma and both could be solved somewhat by the creation of intermediary units of organisations above the level of families but below the level of society at large.¹¹⁸

A particularly telling example is the *Fallūḡī*-Fund, which was established already after the 1967 war with the aim to assist refugee families in need coming from *Al-Fallūḡe*, a small town in the former Palestinian Governorate of Gaza (1 kilometre northwest of today's Israeli town Kiryat Gat). Like other funds of its kind, it is self-organised by approximately 3500 member households belonging to only 15 extended families (clans/ *ḥamūlāt*) – all originating from *Al-Fallūḡe*. It is registered as a charitable non-governmental organisation and has four branch offices (in Irbid, Baq'a, Zahab and Madaba) in addition to its main office in Amman. For contributing members, the fund offers a 'wedding hall' for free, loans for the education of children, a cheap kindergarten, a 'funeral car' and financial support to families where the main bread winner has recently died. In addition, the fund runs a social assistance programme transferring up to 60 US\$ poor families *Al-Fallūḡe* – even if they are not members of the association and have thus never paid contributions. The association's main source of funding is membership fees (the minimum being 5 US\$ annually for every male adult) in addition to donations and returns on invested capital.¹¹⁹

B. THE ROLE OF MICRO-TAKĀFUL

Takāful is increasingly becoming important in Western Asia – especially in the Gulf countries – even if the region is not a forerunner in that regard (in Malaysia, for example, *takāful* is much more wide-spread since long). An increasing number of conventional insurance companies is now also offering products under *takāful* label and hence in conformity with Islamic law through specialised offshoots.¹²⁰

Micro-*takāful*, however, is less common in Western Asia. Only a few schemes exist so far.¹²¹

Takaful Emarat, a *ṣarī'a* compliant life and health insurance company from the UAE, has established a micro-*takāful* product called 'Sehat Plan': It is a combined health, accident, work-disability and life insur-

117 Cf. Baylouny, 2006, p. 353ff.

118 Cf. Baylouny, 2006.

119 Cf. Loewe et al., 2001, box 4.

120 E.g. Medgulf Allianz Takaful, Legal and General Gulf Takaful, Chartis Takaful Enaya, Hannover Retakaful, ACR Retakaful MEA etc. Cf. Akhter, 2010, p. 1; Bahrain Economic Development Board, 2014; PricewaterhouseCoopers, 2008, p. 10.

121 Cf. Brugnoli, 2013; Patel, 2012, p. 39.

ance package, which is sold at an annual price of about 140 US\$ to low-income manual workers in the UAE – i.e. it is not available for office workers.¹²²

Al-Amal in Yemen is an example for an MFI selling a micro-*takāful* product. It is offering loans, sight deposits, child savings accounts, time deposits and a *šarīʿa* compliant credit life insurance.¹²³

And the health plus insurance offered by the Agricultural Mutual Fund in Lebanon is also said to function according to *takāful* rules. In this way, the fund would even be the first micro-*takāful* scheme ever established (in 1997).¹²⁴

122 The product was launched in 2012 and it is only available for manual workers whose income does not exceed US \$1360 per year, see: http://www.takafulemarat.com/repository/media_cnt/TakafulEmarat/Takafu1_Emarat_Launches_New_Sehat_Plan_03-04-2012_hcm0029660.pdf (accessed 25 November 2013).

123 Cf. Pearce, 2011. See also the product description on the Al-Amal Bank's website: http://www.alamalbank.com/index.php?option=com_content&view=article&id=221&Itemid=259&lang=en (accessed 31 December 2013).

124 Cf. Brugnoli, 2013; Kalra, 2010; Middle East Insurance Review, 2008.

V. CASE STUDY ON SELECTED COMMERCIAL MICROINSURANCE SCHEMES

In order to get more concrete information on the performance of microinsurance schemes in Western Asia, we circulated more than 100 questionnaires to most different organisations in all countries in Western Asia but have received only five replies from commercial insurers and three from MFIs. As we have also used our contacts to insurance regulatory bodies, microfinance networks, co-operatives umbrella organisations and commercial insurance syndicates, we have good reason to assume that we have covered a significant portion of the insurance companies in the region that are actually offering insurance products for low-income people.

Our questionnaires had two parts: The *first part* was aimed to get a general overview on the companies offering microinsurance. It examined their legal status, geographical outreach, and key financial figures. A special focus was on (i) whether they distinguish between their conventional and their microinsurance activities, (ii) what they did to develop microinsurance and create awareness, and (iii) to what degree they perceived their business environment as supportive. The *second part* of the questionnaires focused on the characteristics of the microinsurance products offered by the responding insurance companies.

Unfortunately, we received only eight replies. The different reasons for this low response rate most probably lie in the fact that:

- So far, only a limited number of formalised or semi-formalised microinsurance schemes exist in Western Asia, and the non-formalised schemes are difficult to find without extensive field.
- Some insurance companies consider themselves first movers in their country thus, were reluctant to share information. In some cases, they mentioned microinsurance was one of the most profitable lines and did not want to draw attention on that.
- Some insurance companies considered the government was an indirect promoter of microinsurance such as the UAE which has enforced insurance of migrant workers and health insurance for all (in Abu Dhabi and Dubai recently).
- Some insurance companies especially those probed in Oman mentioned their country was too rich with a minimum average wage of US\$ 1000 per month. Thus microinsurance is not an immediate need.
- Accessing Syrian insurance companies was very challenging in view of the current political turmoil.
- Finally, requesting insurance companies to fill this questionnaire was not easy in view of the general hesitance of insurance companies to share information.

A. PROVIDERS

Five commercial insurers have responded to our survey: National Insurance Company (Palestine), Commercial Insurance (Lebanon and Iraq), Jordan Insurance (Jordan), Al Manara Insurance (Jordan), and Damān Islamic Insurance (Qatar) (see Table 4).

In addition, we received filled-in questionnaires from three MFIs: Al-Abyan and Al-Amal in Yemen and Al-Bashaer in Iraq but only a small share of the questions in our questionnaires was answered by them.

Table 4: Responding commercial micro-insurance providers in Western Asia					
Name	National Insurance Company	Commercial Insurance Company	Jordan Insurance Company	Al Manara Insurance PLC	Damān Islamic Insurance Company
Establishment	1992	1962	1951	1974	2010
Country	Palestine	Lebanon	Jordan	Jordan	Qatar
Legal status	Regulated Commercial Insurer				
Supervisory institution	Palestine Capital Market Authority	Insurance Commission			Qatar Central Bank
Gross premium income (thousands of US\$) (2012)	24	180	1200	442	342
Product design	Insurance company with local partners	Only insurance company			
Marketing and customer service	Local agent organisations (co-operatives, NGOs, MFIs); cell phones (only for customer service)	Local agent organisations (co-operatives, NGOs, MFIs)	Company itself	Call centre; local agents; local agent organisations (co-operatives, NGOs, MFIs)	Call centre
Premium collection and claim settlement				Cell phones, specialised software; local agents; local agent organisations (co-operatives, NGOs, MFIs)	Banks
Awareness campaigns	Local agent organisations (co-operatives, NGOs, MFIs); media campaigns	Local agent organisations (co-operatives, NGOs, MFIs); on-site trainings; information brochures	–	Local agent organisations (co-operatives, NGOs, MFIs); information brochures	Local agent organisations (co-operatives, NGOs, MFIs); on-site trainings; information brochures
Source: own survey.					

All of them operate in the entire territory of their respective countries.

The legal status of all responding insurance companies takes the form of composite licensed regulated commercial insurers with the exception of Damān Islamic Insurance Company, Qatar, which also has a Takaful license.

All are regulated by a government body. Commercial Insurance is regulated by the Insurance Control Commission at the Ministry of Economy, Jordan Insurance Company and Al Manara Insurance PLC by the Insurance Commission - Insurance Federation at the Ministry of Industry and Trade, and Damān Islamic Insurance Company used to be regulated by Qatar Central Bank until July 2013.

All insurance companies with the exception of Damān Islamic Insurance Company are requested to build reserves to provide for liquidity problems, which they currently invest mainly in bonds and stocks. National Insurance Co specified they invest in British, Jordanian, Brazilian, South African, and Saudi stocks and bonds. Commercial Insurance was the only one to reply it was currently satisfied with its investment strategy whilst the others abstained from answering even though it was the only one that complained about the fact that investments had become difficult because of decreasing returns. Insurance companies currently investing their reserves either follow corporate guidelines such as National Insurance Co and Commercial Insurance or those imposed by the Insurance Commission as is the case in Jordan. Third parties such as banks and brokers act as the main advisors for their investments.

The microinsurance scheme of Jordan Insurance Company is by far the largest of the commercial schemes covered by our survey. It had a gross premium income of 73.4 million US\$ in 2012, while Al Manara had only 15.1, Commercial Insurance Lebanon 10.0, Damān Insurance 0.3 and National Insurance just 0.02. For all commercial providers, the premium income had been relatively stable over the last three years.

Apparently, there is no correlation between the age of an insurance company and its readiness to start an engagement in microinsurance as the year of establishment of the responding commercial insurance companies varies significantly (between 1951 and 2010).

In Lebanon, most clients have had prior insurance experience mainly with the compulsory motor third party liability insurance that is imposed by the government as a significant number of households are car owners in view of the poor public transportation system.

All responding insurance companies offer traditional insurance in addition to microinsurance with the exception of Damān Islamic Insurance Company, which offers micro and small credit along with micro-insurance.

All – except Jordan Insurance Company – distinguish between traditional insurance and microinsurance:

- National Insurance Company through design and marketing of different products
- Commercial Insurance through a specialised department, design and marketing of different products, separate accounting for microinsurance products, different management for microinsurance products and different distribution channels
- Al Manara Insurance PLC through a specialised department, separate accounting for microinsurance products and different distribution channels
- Damān Islamic Insurance Company through design and marketing of different products, separate accounting for microinsurance products and customer service dedicated to microinsurance clients

There is no correlation between the size of the insurance company and its engagement in microinsurance. Whilst Jordan Insurance Company is a leader, Commercial Insurance is an SME and Damān Islamic Insurance is still nascent. Commercial Insurance reported a 25% of overhead costs which matches the average of insurance companies while Damān Islamic Insurance Company reported overhead costs of 50%. We assume they have higher than average overhead costs in view of their recent establishment (2010).

B. ORGANISATIONAL DESIGN

All companies develop their microinsurance services alone – with the exception of Commercial Insurance which co-operates with local agent organisations (co-operatives, NGOs, MFIs, self-help groups)

even in the design of new products. National Insurance Company tends to set up a brainstorming project team to develop, test and implement new products. Jordan Insurance Companies relies on customer surveys in the establishment of new products. And Damān Islamic Insurance Company makes use of market studies, suggestions by clients and marketing agents and the experience of successful providers in other countries. All respondents stressed, however, that staying close to the needs and problems of low-income clients was a key factor of success.

National Insurance Company and Commercial Insurance co-operate with local agent organisations (co-operatives, NGOs, MFIs, self-help groups) in the marketing (distribution) and provision of customer services of their microinsurance products, while Damān Islamic Insurance Company sells its products only through their call centre and Al Manara Insurance PLC uses both methods.

For the premium collection and claim settlement, National Insurance Company and Commercial Insurance co-operate with local agent organisations (co-operatives, NGOs, MFIs, self-help groups), while Al Manara Insurance PLC uses cell phones and its call centre, and Damān Islamic Insurance Company works with bancassurance – i.e. they co-operate with banks in the sale of their products.

Policy Management is done through paper forms for National Insurance Company, local organizations (cooperative, NGOs, MFIs, self-help groups...) for Commercial Insurance, call centres, specialized software, paper forms and local organizations (cooperative, NGOs, MFIs, groups...) agents for Al Manara Insurance PLC and banks for Damān Islamic Insurance Company.

Data transfer is done through specialized software for National Insurance Company and Al Manara Insurance PLC who also uses paper forms and the local organizations (cooperative, NGOs, MFIs, self-help groups...) whilst Commercial Insurance only uses the latter.

Nevertheless, all responding insurance companies invest in microinsurance awareness and information campaigns, which is done by their local agents. In addition, National Insurance Company also relies on TV/radio advertisements and focuses on social responsibility, Commercial Insurance conducts on site trainings and develops education materials such as brochures, Al Manara Insurance develops education material, and Damān Insurance Company has an extensive program with all the previously described in addition to an FAQ booklet. The frequency is more based on demand on an ad-hoc manner. The main target is building general awareness on microinsurance, characteristics of the products the client is subscribed to and claims processing, and enticing the individual to become a potential client. Amounts spent on awareness and information campaigns were either unavailable or undisclosed with the exception of Damān Islamic Insurance Company which spends 15% of its overhead costs. Insurance companies measure impact of their education campaigns through area word of mouth. National Insurance Company also measures adherence and its increase, consumption and claims reporting, Al Manara Insurance measures renewals, and Damān Insurance Company conducts sms surveys.

C. FRAMEWORK CONDITIONS

In general, the responding insurance companies perceive their framework conditions for providing microinsurance as favourable. As such, they consider themselves not hindered in their microinsurance activities and do not perceive any constraints in financial regulations, or other legal provisions, or in the availability of re-insurance options. They all agree there is a demand for microinsurance which is perceived as affordable, and are positive on the growth of profitable microinsurance business for the coming years. In addition, they have enough information to develop the adequate microinsurance products. Their only concerns are

- that possible clients lack information on insurance and
- that there are only few NGOs, co-operatives, self-help groups and MFIs able to assume the tasks of a microinsurance agent.

According to these five companies, there are no legal provisions hindering the development of micro-insurance with the exception of Iraq, where there is still no clear understanding of MFIs, interest rates are capped, and it is still uncertain whether MFIs can legally offer microinsurance. Some insurance companies mentioned that appropriate legal provisions could promote the development of microinsurance. For instance, National Insurance Company stated that it would increase the number of customers, trust and credibility, affordability and awareness especially if legal provisions matched better the possibilities of non-governmental institutions. Both Commercial Insurance and National Insurance Company agreed the right regulation would positively impact premium collection and affordability.

At the same time, our respondents unanimously complained about a couple of obstacles in the know-how of their customers on insurance. They suggested public information campaigns to be launched in the media and insurance courses to be integrated in school curricula.

Likewise, they admitted suffering from a lack of powerful local intermediaries with whom they could co-operate in particular in the marketing of their products, in premium collection, claims settlement and customer services. Commercial Insurance expressed its wish for funding of capacity development activities among NGOs, co-operatives and MFIs. And Damān and Al-Manara proclaimed that they needed help in creating a more positive mindset among possible intermediaries.

Commercial Insurance and Al Manara Insurance PLC are the only ones who reported support received by a donor. Commercial Insurance benefited from technical assistance for market feasibility (demand) research and introduction to the Iraqi market, while Al Manara for reinsurance security (100% reinsured), product design and public awareness. Commercial Insurance believes the support received was very helpful, while Al Manara admitted that it would have been able to fully cover the risk of developing a microinsurance product by itself – without donor support. Therefore, only Commercial Insurance expressed its wish to receive additional funding or capacity building for new microinsurance activities.

D. PRODUCTS

Currently, National Insurance Company and Damān Islamic Insurance Company are offering just one microinsurance product each: a credit term life and work-disability respectively an untied life insurance. Commercial Insurance is offering a credit term-life and work-disability¹²⁵ and an untied life insurance product. At the same time, three products are offered respectively by Jordan Insurance Company (one term life and two different health insurance products) and Al Manara Insurance PLC (all three are mainly health insurance products).

1. *Credit microinsurance (microinsurance against credit default)*

Credit term life and work-disability insurance is typically the first microinsurance product offered in a country (see Chapter 2). It protects mainly the creditor – typically an MFI – against credit default that is due to the death or work-disability of a client but often also promises benefits for the survivors of the borrower. Credit insurance products are offered by National Insurance in Palestine and by Commercial Insurance in Lebanon and Iraq.

All three products were launched after 2006 and developed along similar lines: They were developed in-house – without external support or consultation. They are tied to the purchase of a loan (i.e. in a bundle), they are mandatory for all clients of certain micro-credit programmes, and their term is contingent on the repayment period of the loans taken by their customers.

125 Credit insurance is an insurance covering the outstanding credit amount. It may cover different risks. Credit term-life insurance, for example, pays the remainder of loan takers' debt to their creditor if they die with the effect that their families do not have to repay, while credit work-disability insurance pays when a loan-taker becomes work-disabled.

The products cover the death and the permanent disability of borrowers. For all, the minimum sum insured is 500 US\$ but, of course, the average sum insured is substantially higher: 1359 US\$ for customers of National Insurance in Palestine, about 2000 US\$ for Lebanese and about 1500 US\$ for Iraqi clients of Commercial Insurance. For this same average sum, customers paid 7.8 US\$ per year in Palestine, 7.5 US\$ in Lebanon and 6 US\$ in Iraq, which is equal to 5.7 US\$ for every 1000 US\$ insured in Palestine, 3.75 US\$ in Lebanon and 4 US\$ in Iraq (see Table 5).

In addition to the commercial insurers, Al-Bashaer, an Iraqi MFI, is also offering a credit term life insurance product – but on a non-commercial basis (see Table 5).

National Insurance Co. employs mainly three instruments to protect against adverse selection and moral hazard: (i) There is a waiting period for claims of 30 days. (ii) There is an upper ceiling for claims of 10000 US\$. (iii) A number of risks that may cause the death or work-disability of a policy-holder are exempted from coverage: war, suicide, terrorism, revolution etc. Unfortunately, Commercial Insurance has taken a different approach by removing all exclusions. It covers all causes of death and permanent disability (including even suicide) as from the first day of coverage.

	National Insurance Palestine	Co. Lebanon	Commercial Insurance Iraq	Commercial Insurance Iraq	<i>For comparison: Al-Bashaer (MFI)</i>
Year of product launch	2009	2010	2011	2011	2009
Distribution channel	tied to purchase of micro-credit				
Target group	mandatory for micro-credit clients				
Re-insurance	No				
Minimum sum insured (US\$)	500				<i>n/a</i>
Average sum insured (US\$)	1359	2000	1500		<i>n/a</i>
Average annual premium per policy (US\$)	7.8	7.5	6.0		<i>n/a</i>
Average annual premium per 1000 US\$ insured (US\$)	5.70	3.75	4.00		<i>n/a</i>
Number of policy holders at the end of 2012	3074	ca. 4836	ca. 5825		<i>n/a</i>
Total premium income in 2012 (US\$)	24191	36273	34951		<i>n/a</i>
Total expenditure on claim settlement in 2012 (US\$)	1400	10931	7580		<i>n/a</i>
Estimated costs of over-heads (administration, distribution etc.) in 2012 (US\$)	N/A	9068	8738		<i>n/a</i>
Source: own survey.					

2. Untied life microinsurance

Damān Islamic Insurance is offering a life insurance product in Qatar that customers can buy even if they have not taken a credit. – just like Jordan Insurance Co. in Jordan. The product of Damān Islamic Insurance is re-insured and has been designed by the company's reinsurance partner while the product of Jordan

Insurance Co. is not re-insured and has been designed by the insurer itself. Allegedly, both products do not generate surplus for the provider.

The product offered by Jordan Insurance Company is a simple term life insurance product but sold as a group contract only. It targets in particular self-employed female MFI clients.

The product offered by Damān Islamic Insurance Company in Qatar, in contrast, targets all kinds of migrant workers. It is sold in the form of individual contracts and includes, in addition to term life insurance, smaller accident, hospitalization and unemployment components.

	Jordan Insurance Company (Jordan)	Damān Islamic Insurance Company (Qatar)	<i>For comparison: Abyen (Yemen)</i>
Name of the product	Himaya	Family Shield Takaful	<i>Micro-finance</i>
Year of product launch	2006	2012	<i>2013</i>
Product tied to another product	No		
Re-insurance	no	a commercial re-insurer	<i>self re-insurance</i>
Product designed by	insurance provider itself	the re-insurer	<i>insurance provider itself</i>
Covered risks	term life	term life plus accident plus hospital cash plus unemployment	<i>term life plus natural disaster plus fire</i>
Type of policy	group	individual	<i>individual</i>
Target group	in particular self-employed MFI clients with limited income	migrant workers, in particular bank clients	<i>in particular self-employed MFI clients with limited income</i>
Minimum annual premium per policy holder in 2012 (US\$)	4.2	13.7	<i>23,22</i>
Minimum sum insured (US\$)	2111	13720	<i>464</i>
Average annual premium per policy holder in 2012 (US\$)	5.1	28.8	<i>116,12</i>
Average sum insured (US\$)	2359	27440	<i>2322</i>
Number of policy holders in 2012	75550	11784	<i>n/a</i>
Total gross premium income for the product in 2012(US\$)	504126	341090 [in 2011]	<i>n/a</i>
Total spending on claim settlement in 2012 (US\$)	304899	13720	<i>n/a</i>
Average share of over-head costs (administration, marketing, servicing etc.) on total gross premium income	15-20%	50%	<i>n/a</i>
Source: own survey.			

Most contracts sold by Jordan Insurance Company cover only the minimum sum insured (approximately 2000 US\$) at an annual premium rate of 4.2 US\$: The average sum insured is just 2359 US\$ and the average annual premium per policy holder is 5.1 US\$. In the case of Damān Islamic Insurance Company, the average sum insured is substantially higher (27440 US\$) and also considerably higher than the minimum

sum insured (13720 US\$). Likewise, the average annual premium paid by the clients of Damān Islamic Insurance (28.8 US\$) is much higher than those paid by the clients of Jordan Insurance (5.1 US\$) – but the annual premium paid per 1000 US\$ insured is lower in Qatar (1.05 US\$) than in Jordan (2.2 US\$) even though it covers additional risks (see Table 6).

Damān Islamic Insurance employs mainly three instruments to control for adverse selection and moral hazard: (i) There is a waiting period of 90 days for claims after underwriting. (ii) The justification of claims is checked. (iii) Certain critical illnesses are exempted from coverage. Unfortunately, Jordan Insurance has not reported what they do to control for adverse selection and moral hazard.

3. *Education fees plans (term-life and works-disability insurance covering school fees)*

Commercial Insurance pioneered back in 2000 in offering a special term-life and work-disability insurance for the parents of students. The product covers all tuition fees to be paid by student policyholders until graduation if their breadwinning parent dies or becomes work-disabled and is therefore unable to continue paying for the education of her/his children.

The product is mainly distributed through schools and universities; and it has become mandatory in some of them. The premiums are equal to about 1.5 % of tuition fees. To make a claim, policyholders must send a copy of their identity card, the death certificate of their parent and/ or the doctor report.

So far there have been no conflicts between policyholders and the insurer – mainly because there are no exclusions in the contracts. Renewal rates are very high as this kind of insurance is a win-win for all engaged parties. The school advertises its social responsibility by keeping the child in school and the parents do not feel the burden of the premium, as it is included in the tuition fee.

4. *Health microinsurance*

Some insurance companies have started offering health-hospitalization microinsurance services. These programs started after credit life microinsurance in 2010 and typically target MFI borrowers and their dependents (see Table 7).

Table 7: Health insurance products offered by commercial respondents to our survey					
	Jordan Insurance Company (Jordan)		Al Manara Insurance PLC (Jordan)		
Product name	Reaya	Salamtak	Microfund for Women / hospitalisation	Expatriates insurance / wafedeen	House-maids insurance
Year of product launch	2011	2012	2011	2010	2012
Product tied to other product	no		to micro-credit (mandatory for micro-credit clients)	no	no (typically sold to employers of housemaids to their benefit)
Re-insurance	none		by commercial re-insurer	None	
Coverage	hospitalisation		hospitalisation (plus accident)	hospitalisation (plus accident <i>and</i> term life)	
Type of policy	group			individual	
Target group	especially self-employed MFI clients with low income	all	women	migrant workers	Housemaids
Distribution channel(s)	MFIs		MFI	general insurance brokers; specialised microinsurance brokers	
Minimum annual premium per policy-holder in 2012 (US\$)	1.1	1.0	n/a	7.0	7.0
Average annual premium per policy-holder in 2012 (US\$)	1.1	1.0	ca. 5400	7.0	7.0
Average sum insured per policy-holder in 2012 (US\$)	n/a	n/a	n/a	10557	10557
Number of individual policy-holders at the end of 2012	599293	2776	62480 [in 2011]	n/a	n/a
Total gross premium income for the product in 2012 (US\$)	632700	2638	338796000	93062	8646
Total spending on claim settlement in 2012 (US\$)	241364	2224	47322600 [in 2011]	n/a	8977
Average share of over-head costs for the product (administration, marketing, servicing etc.)	15-20%	15-20%	n/a	n/a	n/a
Surplus made with product	No				
Product designed by	insurance provider itself		re-insurer	insurance provider itself	
Source: own survey.					

These products are developed in house and in some cases with no reinsurance such as in the case of Jordan Insurance Company. In many cases, health microinsurance is sold independent from other products

but sold by microfinance institutions. Terms vary depending on the service and waiting periods. Loss ratios are often low the first years until the client familiarizes with the insurance policy and claim filing.

Al Manara Insurance offers a health microinsurance product covering the costs of medical treatments that are due because of accidents. But the product is only sold in combination with a credit; adherence is mandatory and targets women. Al Manara has reinsurance for the product and verifies claims by an verification by an employed doctor.

Daily hospitalization indemnity has been a very successful microinsurance product especially in Jordan where health treatment costs are taken in charge by the state. This program targets women primarily and is used to cover for transport and other fees. Women can use this income to keep their businesses running to ensure continuous cash flow.

Some other health microinsurance schemes target groups and are voluntary. They target the group members through the latter's agents. For example, in the case of MFIs, their agents are responsible for the sales of health microinsurance and are compensated accordingly. Loss ratios can be higher since beneficiaries enrol for usage the first year. The sustainability of such programs is doubtful and insurance companies offering it such as Jordan Insurance Company are still in their first experimental years. Renewal statistics are still not available.

Some insurance companies offering health microinsurance focus on bundle packages. Damān Islamic Insurance Company distributes through banks a voluntary package, which includes life, medical fees for critical illnesses or following accident, hospitalization cash indemnities, and indemnity for involuntary loss of job. This program started in 2012 and is sold individually on a voluntary basis. The program is reinsured and targets bank clients. It is too young to show whether it is making profits or losses or what share of the contracts are renewed or not. Most non-renewals are due to the fact that policy holders leave the country. Claim filing requires the traditional paperwork. A waiting period, claim ceiling and claims verification are used to prevent abuse. In case of conflict, they have their own arbitration courts or they can refer to Qatar Central Bank's claims handling unit.

VI. CONCLUSIONS ON THE POTENTIAL OF MICROINSURANCE IN WESTERN ASIA

The case studies have shown that microinsurance is feasible in Western Asia; and it has a substantial potential in improving the social protection of large parts of the population in this part of the world. At the time being, more than one out of two people in the region have no access to reliable social protection instruments. A first best solution for this problem might be that governments extend the outreach of public social insurance and assistance schemes but there are no signs that this will happen in the near future. And microinsurance is certainly at least a second-best solution wherever it can be implemented.

The main challenges in this regard are probably (i) that the microinsurance concept is still very little known throughout the region and (ii) that most of the kinds of institutions that provide microinsurance in other parts of the world are relatively weak in Western Asia. In addition, there are some legal constraints to the spread of microinsurance schemes in several Western Asian countries.

Normally, the potential of a policy concept depends on three criteria: First, there must be a *need* for it, which means that there is a problem that has not yet been tackled (well enough). Second, the concept must be *feasible* in general and *adequate* for the concrete context. And third, the concept must be *superior* in terms of effectiveness, efficiency and social justice to alternative policy concepts. Microinsurance would widely fulfil all three criteria in most countries of Western Asia.

Need for microinsurance: Chapter 3 has argued at length that there is a considerable gap in the coverage of people in Western Asia by formal and reliable social protection instruments. Half of all people have no access to any formal social protection scheme and are thus highly vulnerable to manifold risks. They have to rely on individual risk management strategies such as saving and self-insurance (risk diversification) and traditional social protection mechanisms such as the mutual support exchanged among relatives and neighbours, but these are weak and unreliable and in a decline, which is due to the modernisation and urbanisation of societies. Hence, there is a large group of people in Western Asian countries who are vulnerable to manifold risks and who are in need of access to more reliable social protection schemes (be it public schemes such as social insurance or transfer programmes or microinsurance projects). In the Arab Gulf countries, the majority of this part of the population consists of migrant workers, while in Iraq, Jordan, Lebanon, Palestine, Syria and Yemen these people are predominantly low-income workers in the informal economy.

Feasibility and adequacy of microinsurance: As we have seen in our case studies in Chapter 5, it is possible to establish sustainable microinsurance schemes at least in some ways and at least in some countries in Western Asia. Especially Jordan seems to provide good conditions for the establishment of microinsurance schemes and especially if these are organised along the lines of the partner-agent model. And we do not see any reason why it should be significantly more difficult to organise microinsurance in Western Asian countries than elsewhere: There is demand, sensible products can be thought of, there are potential providers, and the political, socio-cultural and economic framework conditions do also allow for micro-insurance – at least in the majority of Western Asian countries:

- *Demand:* The experience of all the microinsurance schemes that exist already in Western Asia show that there is substantial demand for microinsurance once there is a concrete offer. Of course, we should not expect all households that fall into the current gap in social protection coverage to buy microinsurance once it is offered. For some, it may be too expensive, for others not adequate and others again might mistrust the concept. But at least, if there were some more microinsurance schemes in Western Asia, they would find their customers and thereby contribute to reducing the current social protection gap.
-
- *Products:* Apparently, there is demand for credit, life, work-disability, accident and health insurance products in Western Asia, and most of these products can in fact be offered. Health microinsurance is a special case, the health microinsurance scheme in Lebanon is said to run deficits while the Jordanian schemes seem to be profitable. This is mainly due to the fact that most of the Jordanian schemes do not really provide protection against health risks. They generate compensation but it is far from covering all relevant health care costs. In addition, even to the degree that the Jordanian

schemes do reimburse the full health care utilisation fees, they have to pay much less than the Lebanese schemes because health care is provided at much lower prices by the Jordanian public health system than in Lebanon – or put otherwise: Much higher parts of the real health care costs are born by government subsidies in Jordan.

- *Offer:* Apparently, some kinds of microinsurance products can be offered by commercial insurance companies at least in some countries of Western Asia including the Arab Gulf states, Lebanon and Jordan. Some MFIs are also able to offer basic products such as credit life and work-disability microinsurance in Jordan, Lebanon and Yemen, and they are even able to sell more complex products such as normal capital life, work-disability and health microinsurance – at least in Jordan and Palestine – if they have the backing of an experienced partner (preferably a commercial insurance company). At the same time, we have little evidence on a sustainable mutual insurance scheme in any of the countries in Western Asia.
- *Framework conditions:* As we have argued, most framework conditions for microinsurance are favourable or at least fair in all Western Asian countries with the exception of Syria and parts of Iraq. Nevertheless, there are four major challenges: (i) In some countries, insurance, co-operative and NGO laws contain requirements that can make microinsurance extremely difficult to provide at least for certain actors. (ii) Co-operatives and NGOs tend to have only limited capacities in most countries of Western Asia. (iii) The partner-agent model is difficult to implement because commercial and third-sector organisations tend to mistrust each other. (iv) Citizens are still inclined to expect their governments to solve all social problems rather than to search support elsewhere or organise themselves.

Probably, the concentration of several comparatively successful microinsurance schemes in Jordan is due to factors other than extraordinarily positive framework conditions. The microinsurance concept is well known in large parts of Jordan's institutional landscape since 2001. Several important actors – including the government – have had a favourable opinion about the microinsurance concept and therefore repeatedly pushed for the implementation of a pilot project, and international donors as well have sought Jordan as a place to act as a forerunner in the Middle East in the absorption of the microinsurance concept.

If ever there is anything in the framework conditions that contributes to explaining that there are several successful microinsurance schemes in just Jordan, it would probably be the existence of the four royal foundations. On the one hand, they behave like NGOs but with considerable experience and capacity in implementing development projects, while, on the other hand, they enjoy strong backing of the state. This status allows them to act in a very flexible way and in the same time take a risk in the implementation of new concepts.

Superiority of microinsurance: Microinsurance can help to reduce the number of vulnerable people in Western Asia. It offers low-income families the opportunity to protect themselves against their most serious risks at an affordable price. It may thereby be extremely beneficial to its customers – but also to other consumers, because it has the potential to raise very generally people's awareness of the risks they face in life and of the need to take action in time to manage these risks smoothly. Thereby, microinsurance can have a demonstration effect for all groups in society. And it may finally also encourage commercial providers of insurance to turn their attention to low-income people rather than only the most affluent consumers and ultimately develop their own products for the bottom end of the market where profits are made by the mass of clients rather than high margins.

At the same time, there are also limits to the potential of microinsurance in Western Asian countries.

First, microinsurance cannot cover the very poor who do not even have income to finance their current basic needs. It is a cheap but still contributory social protection instrument and therefore best suited for the near-poor: vulnerable people with an income slightly above the poverty line. As such, microinsurance can help low-income people prevent further declines in well-being but it cannot help the ultra-poor to survive or even escape from poverty.

Second, microinsurance cannot redistribute income within society. Membership is voluntary and hence clients can terminate their contracts if they perceive the costs of these contracts to outweigh their benefits. If larger amounts of money were distributed on a permanent basis from richer to poorer policy-holders, the richer ones would sooner or later leave the schemes, which would ultimately go bankrupt.

Microinsurance is thus not an alternative for the establishment and extension of non-contributory social protection schemes such as social assistance and public works programmes in Western Asian countries, which are focused on the most destitute population groups and intended to redistribute money within society and thereby fight poverty.

Third, microinsurance is unlikely to reach a majority of the population in Western Asian countries. It may well narrow the gap in social protection coverage in the region but it cannot close the gap. Universal social transfer schemes could close the gap but their benefits would either be too small to effectively reduce the vulnerability of recipient households or too expensive at least for the middle-income countries in the region. Social insurance in contrast would also probably not be able to close the gap entirely but there is a good chance that it could cover a much larger share of the population than microinsurance even under the most optimistic assumptions. In addition, social insurance can also contribute to the reduction of absolute poverty because governments can make membership in social insurance schemes mandatory and thereby prevent richer people from leaving the scheme just because their contributions exceed their benefits.

The point is, however, that the governments in the region have not spent much effort during the last twenty years in reforming public social insurance and assistance schemes – and even less so in extending their respective coverage. Some larger reforms have been implemented in Jordan and Palestine and several minor ones in Syria, Yemen and the Gulf states.¹²⁶ However, since the expansion of social protection coverage in the countries of the region is progressing rather slowly, microinsurance is probably an important tool for reducing the vulnerability of migrant workers in the Gulf states as well as informal sector workers in the rest of Western Asia. And even if microinsurance is not going to cover more than 5-10 % of the populations of Jordan, Lebanon and Palestine at the beginning, this should be seen as a valuable and non-negligible step forward.

In addition, microinsurance can also provide social protection against risks that are typically not covered by public social protection systems in Western Asia – such as e.g. droughts, animal diseases and crop pests. They may be more threatening to many rural households, who are active in agriculture, than standard risks such as old-age, work-disability or illness. In most Western Asian countries, these households make up just a small share of the population but they are substantially more numerous in others such as Yemen, Syria and Lebanon where the potential for agriculture microinsurance is substantial. Here, farmers face significant weather risks such as drought and heat, which are increasing with global warming and adding to farmers' market challenges such as the high costs of leasing land, barriers in the access to water and credit and the monopolisation of agricultural markets by local great land owners.¹²⁷

And microinsurance can also top up the benefits generated by contributory or non-contributory public social protection systems: pay, for example a second old-age pension that enables pensioners to live a more decent life after retirement or reimburse the co-payments that customers of other insurance arrangements have to pay themselves, i.e. the share of the costs that their other insurance arrangement does not pay back to them. In the end, this is exactly what the two Jordanian micro health insurance schemes offer: They do not cover the entire health care costs.

Finally, micro-insurers in Western Asia could also cover those effects of a risk that the benefit packages of existing (other) social protection systems do not include. This can be, for example, the costs of transporting sick people to hospital. A social health insurance that covers the costs of hospitalisation and health care but not the ambulance transport is useless for people in remote areas who have long ways to travel to the next hospital. Likewise, microinsurance in Western Asian countries could also cover the treatment of

126 Cf. Loewe, 2014.

127 Cf. United Nations, Economic and Social Commission for Western Asia, 2013, p. 5.

HIV/AIDS or cancer – just like the Cancer Care Insurance offered by the King Hussein Cancer Centre in Jordan, which makes sense because several social health insurance schemes exclude these two kinds of illnesses from coverage.

Still, it may quite well be that the considerable potential of microinsurance in Western Asia remains largely untapped even in the medium term future and only isolated, small-scale microinsurance schemes come into being in mainly a few countries of the region. To avoid this, strenuous action is due to

- make the microinsurance concept better known throughout Western Asia,
- raise awareness that microinsurance can be arranged as micro-*takāful* – that is in a way that conforms with the Islamic law,
- liberalise insurance, co-operative and NGO regulation such that it becomes easier for most different kinds of actors to run a microinsurance scheme or at least market its products,
- build the capacities of co-operatives and NGOs in marketing and servicing financial products,
- explore alternative distribution channels for commercial insurers, such as utility companies, retailers and mobile phone networks,
- support commercial and third-sector organisations in overcoming their mutual mistrust,
- make citizens understand that the state cannot solve every social problem and instead they should jointly reflect how they can take action themselves as a group.

VII. POLICY RECOMMENDATIONS FOR GOVERNMENTS

Governments in Western Asia are urged to revise their social protection policies. Reforms are due and their main goal should be to raise the share of people with access to reliable social protection instruments.

On the one hand, governments should consider increasing their social assistance spending. The number of people living below the international poverty line of 1.25 US\$ in purchasing power parities of 2005 is lower than in other parts of the world. But the share of people with only slightly higher incomes is considerable and has been stagnating during the last 20 years. And given the high levels of unemployment throughout the region, this share is unlikely to decrease in the short to medium term even if economic growth rates go up. The only way to ameliorate the living conditions of these people is thus to grant them social assistance. Such can be seen as a moral duty in countries where religious values still have a meaning. But the support is also in governments' own interest because stagnating poverty rates and rising inequality threaten the stability of states and societies.. And the additional costs can easily be financed in every Western Asia country by reducing and reforming energy and food subsidies.

On the other hand, governments should also reduce the vulnerability of people who are not suffering from the worst forms of poverty. This can also be achieved by increased social assistance spending. The alternative would be to extend the coverage of social health and pension insurance schemes to additional groups of the population. Tunisia and Libya (prior to the current civil war) have shown that it is possible to integrate at least 75 % of the economically active population into one same or different social insurance schemes (see Table 2).

Both strategies tend to be more effective in reducing poverty and vulnerability than microinsurance. But the three strategies are by no means exclusive. In contrast, they may quite well be pursued in parallel.¹²⁸

Governments of Western Asian countries that want to reduce the vulnerability of citizens should not only think about expanding their public social programmes. They can also contribute to their goal by encouraging and supporting citizens in their own efforts to manage risks, by giving NGOs and co-operatives more freedom in the building-up of non-public social protection schemes or by incentivising commercial insurers to develop and offer products that target lower income groups.

At the same time, this does not mean that the governments can lean back and leave it upon non-state actors to support citizens in their risk management efforts. All governments still have the overall responsibility to make sure that as many people as possible have access to adequate social protection schemes. Hence, at least if the private and third sectors are unable to help private household, it is upon governments to step in and close the gap. It is them who have signed the Universal Declaration of Human Rights, where it says in Article 22: "*Everyone, as a member of society, has the right to social security [...].*"

In the provision of microinsurance, there is often normally no direct involvement of governments. But they may still have to contribute more indirectly. Among others, the governments of Western Asian countries could consider to provide support with the following:

- *Disseminate information* on the microinsurance concept as well as the micro-*takāful* in order to raise the interest of commercial companies, NGOs, MFIs, co-operatives and ordinary consumers, make consumer consider to form self-help groups and build up mutual microinsurance schemes themselves and to alert them of the advantages and disadvantages of different kinds of microinsurance products offered on the market in order to enable them to compare different options.

128 Cf. Deblon and Loewe, 2012.

- *Legalise the involvement of self-help groups, welfare organisations, co-operatives and MFIs* in the offer of microinsurance products. For this reforms in the associations, insurance and NGO legislation may be needed.
- *Help NGOs, MFIs and co-operatives build capacities* in marketing, servicing and possibly also designing and managing financial products like microinsurance.
- *Facilitate between different kinds of actors* such as NGOs, co-operatives and MFIs on the one side and insurance companies on the other in order to help them overcome their mutual mistrust and eventually embark on a co-operation (such as e.g. in the ‘partner-agent model’).
- *Subsidise start-up costs.* (Start up costs only: Current benefits should not be subsidised for reasons of fairness as long as only parts of the population of a country have potentially access to any micro-insuarncce scheme).
- *Provide emergency liquidity* funds from which micro-insureres can borrow at a modest interest rate when they face temporary liquidity problems.
- *Inform consumers* on the chances and risks of microinsurance arrangements and on the microinsurance products offered by different providers.
- *Define minimum quality standards* for microinsurance schemes and products – especially regarding the clarity and simplicity of insuarncce products, benefit levels, packages and conditions and the publication of inforamtion on the insurer’s risk and financial management startegies and the financial status of the scheme.
- *Ease dispute settlement* between providers and consumers of microinsurance schemes (as well as between the different actors that are involved in the provision of microinsurance such as for example in the ‘partner-agent’ respectively ‘linking model’) through (i) the provision of fair, efficient and easily accessible legal procedures or (ii) support provided to alliances of micro-insuarncce schemes in the building up of a co-operative arbitration board.
- *Promote networks of microinsurance schemes*, which can facilitate the exchange of information and ideas, the identification and formulation of common interests, the communication of these interests to the political process and eventually the conclusion of a mutual re-insurance arrangement.

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