



# **Bangladesh Microinsurance Market Systems Analysis (Part A) and Assessment of Components 1 and 2 of the Bangladesh Microinsurance Market Development Project (Part B)**

Draft Report

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## Acronyms

A2ii	Access to Insurance Initiative
ADB	Asia Development Bank
AIS	Agricultural Insurance Solutions
AWS	Automated Weather Stations
ABIA	Bangladesh Insurance Academy
BB	Bangladesh Bank
BDT	Bangladeshi Taka
BIA	Bangladesh Insurance Association
BIF	Bangladesh Insurance Forum
BISDP	Bangladesh Insurance Sector Development Project
BTRC	Bangladesh Telecommunication Regulatory Commission
BMMDP	Bangladesh Microinsurance Market Development Project
BWDB	Bangladesh Water Development Board
CDF	Credit Development Forum
CGAP	Consultative Group to Assist the Poorest
CHF	Swiss Francs
CHIRPS	Climate Hazards center InfraRed Precipitation with Station data
CRF	Covariant Risk Fund
DAC	Development Assistance Committee
DAE	Department of Agricultural Extension
DAM	Department of Agricultural Marketing
DDM	Department of Disaster Management
DFI	Development Finance Institutions
DLS	Department of Livestock Services
ESDO	Eco-Social Development Organization
FCDO	Foreign Commonwealth Development Office
FDI	Foreign Direct Investment
FI	Financial Institutions
FID	Banking and Financial Institution Division, Ministry of Finance
FLRM	Financial Livestock Risk Mitigation
FY	Financial Year
GDIC	Green Delta Insurance Company
GDP	Gross Domestic Product
GIZ	German Corporation for International Cooperation GmbH
GOB	Government of Bangladesh
GSMA	Global System for Mobile Communication Association
GUK	Gana Unnayan Kendra
ICs	Insurance Companies
IDRA	Insurance Development and Regulatory Authority
IFC	International Finance Corporation

ILO	International Labour Organization
INAFI	International Network of Alternative Financial Institutions
IT	Information Technology
JBS	Jiban Bima Corporation
JICA	Japanese International Corporation Agencies
JFPR	Japanese Fund for Poverty Reduction Development
KOICA	Korea International Cooperation Agency
MEs	Microenterprises
MF	Microfinance
MFI	Microfinance Institutions
MFS	Mobile Financial Services
MHI	Micro Health Insurance
MIC	Microinsurance Companies
MNO	Mobile Network Operator
MOA	Ministry of Agriculture
MOF	Ministry of Finance
MOFL	Ministry of Fisheries and Livestock
MRA	Microcredit Regulatory Authority
MRM	Monitoring and Results Measurement
MSMEs	Micro Small and Medium Enterprises
NBFIs	Non-Bank Financial Institutions
NGO	Non-Governmental Organization
PKSF	Palli Karma Sahayak Foundation
POs	Partner Organizations
PPDP	Public Private Development Partnership
SBC	Sadharan Bima Corporation
SC	Swisscontact
SDC	Swiss Agency for Development and Cooperation
SDG	Sustainable Development Goal
SFB	Syngenta Foundation Bangladesh
SFSA	Syngenta Foundation for Sustainable Agriculture
SIDA	Swedish International Development Corporation Agency
SME	Small Medium Enterprises
SUROKKHA	Promoting Risk Mitigation Measures for Climate Change Adaptation
Tk	Bangladeshi Taka
TOR	Terms of Reference
TVAS	Telecom Value Add Service Provider
UNFCCC COP	The United Nations Framework Convention on Climate Change Conferences of the Party
US\$ / USD	United States Dollars
VAT	Value Add Tax
WB	World Bank
WIBCI	Weather Index-based Crop Insurance

# Part A: Bangladesh Microinsurance Market Systems Analysis

## Executive Summary (Part A)

**A broad range of global evidence shows that microinsurance can foster economic resilience of smallholder farmers and Micro, Small and Medium Enterprises (MSMEs).**<sup>1</sup> Tailored to specific needs of vulnerable and low-income populations, it is an essential ingredient in addressing the risks associated with the impacts of climate change and other economic shocks.<sup>2</sup>

**Furthermore, global evidence suggests that a 1% increase in insurance penetration can reduce the disaster recovery burden on taxpayers by up to 22%.**<sup>3</sup> Bangladesh is ranked fifth in the world in terms of economic losses due to climate change and has experienced US\$3.72 billion of losses from 2000-2019.<sup>4</sup> It is the seventh most climate change-vulnerable country in the world with approximately 56% (90 million) of its population living in “high climate exposure areas”.<sup>5</sup> Women bear the brunt of the impacts of climate change with poor women 14 times more likely to die from a climate disaster than men.<sup>6</sup>

**Bangladesh’s economy, and low-income households, experienced significant economic and social shocks from COVID-19.** The pandemic has pushed an estimated 32 million people back into poverty.<sup>7</sup> Many of these low-income households were already vulnerable to climatic shocks and poverty due to their limited savings and access to social protection.<sup>8</sup> The pandemic caused a reduction in new sales and renewals of microinsurance schemes due to lockdowns, and demonstrated the need for new microinsurance schemes to cover business interruptions from supply chain delays, lock downs etc. On a positive note, it resulted in greater use of digital payments and Mobile Financial Services (MFS) increasing financial inclusion. It also contributed to a decrease in the gender gap for financial inclusion from 29% in 2017 to 24% in 2021.<sup>9</sup>

**The history of Bangladesh’s microinsurance market stems back to 1972 when the Microfinance Institution (MFI) BRAC launched health insurance.** A pivotal point in its history was in 2006 when the Microcredit Regulatory Authority (MRA) under the MRA Act 2006, Clause 24 (h) **granted registered MFIs with the authority and responsibility to offer different types of insurance services for their loan recipients and family members.**<sup>10</sup> Since then, the market has been predominantly MFI led, with some insurance companies (ICs) receiving development partner funds to implement pilots across a broad range of products from life, health, flood, index-based, asset and liability coverage etc.

**Over the past decade, development partners have invested approximately US\$250 million in microinsurance projects.**<sup>11</sup> Most of these have not been successful in reaching either scale or profitability. A key reason is that development partners have tended to follow their own interests, and not complete sufficient beneficiary risk and needs assessments when developing products. **As such, most microinsurance**

<sup>1</sup> Results from this Microinsurance Market Systems Analysis; GIZ. 2019. Insurance for Micro, Small and Medium Enterprise Development. Inclusive Insurance Fact Sheet Series; and Care International. 2019. Insuring for a Changing Climate: A review and reflection on CARE’s experience with microinsurance.

<sup>2</sup> Khan. M.R., Roddick. R., and Roberts. E. 2013. Assessing Microinsurance as a Tool to Address Loss and Damage in the National Context of Bangladesh.

<sup>3</sup> International Development Forum, 2016.

<sup>4</sup> Germanwatch. 2021. Global Climate Risk Index (CRI) 2021. Who Suffers Most from Extreme Weather Events? Weather-Related Loss Events in 2019 and 2000-2019. Briefing Paper. January 2021.

<sup>5</sup> USAID. 2018. Fragility and Climate Risks in Bangladesh.

<sup>6</sup> Care International. 2020. Evicted by Climate Change: Confronting the Gendered Impacts of Climate-Induced Displacement.

<sup>7</sup> BRAC. 2021. Bangladesh Multiple Phase Livelihood Survey – Impacts of COVID.

<sup>8</sup> Mercy Corps. 2021. The facts: How climate change affects people living in poverty. Updated April 2021.

<sup>9</sup> Pi Strategy. 2021. Digital Financial Services – in the time of COVID-19. Early Insights, Bangladesh. December 2020; World Bank Group. 2021. The impact of COVID-19 on Financial Inclusion; and CGAP. 2021. Bangladesh’s COVID-19 Response Is Taking Digital Finance to New Levels. Blog published on 7 October 2021.

<sup>10</sup> Under the MRA Act 2006, Clause 24 (h) “Offer different types of insurance services and other social development-oriented loan facilities for loan recipients and members of their families”.

<sup>11</sup> BMMDP Study Teams own calculation based on assessment of development partner landscape.

schemes have been supply driven. There is also evidence of market distortion as development partners have subsidized operational costs and premiums. In 2022 there are four development partners active in the microinsurance market: Foreign Commonwealth Development Office (FCDO) focusses on the life and health subsectors; Oxfam focusses on the crop subsector; the World Bank (WB) focusses on capacity building of the regulator, government reinsurers and training provider, and on improving the regulatory environment; and SDC focusses on crop and livestock subsectors. Oxfam, FCDO and SDC projects are due to finish at the end of 2022, and WB will finish by 2024. Possible pipeline development funded projects include Oxfam, FCDO, United Nations Development Project (UNDP), German Corporation for International Cooperation GmbH (GIZ), United States Agency for International Development (USAID), and a Phase II of the current BMMDP. More may appear as development agencies refocus their activities from pandemic survival to wider recovery areas such as microinsurance.

**The microinsurance market system has a challenging political economy, underpinned by the absence of a unified microinsurance regulatory framework.** A misalignment of incentives has created conflict at multiple levels of the market system. Ambiguity between the two key regulators, Insurance Development Regulatory Authority (IDRA) and the MRA, has resulted no collaboration in regulating the sector. Conflict between ICs and MFIs as the two actors who should be able to develop and distribute microinsurance products, has led to a lack of innovative partnerships and unwillingness to develop a cohesive microinsurance regulation. Finally, whilst there is evidence of public sector political will, this does not translate into action. A lack of inter-agency coordination and collaboration, and absence of data to inform evidence-based policy decisions, has resulted in fragmented incentives.

**Current market demand for microinsurance remains low.** An estimated 93% of the country's 166 million population are without access to formal insurance products and services.<sup>12,13</sup> Lack of awareness of the benefits of microinsurance, a lack of trust in the concept of insurance and in ICs, and existing products that do not meet the risk needs of beneficiaries are major contributing factors. A large portion of current microinsurance demand is based on 'mandatory' microinsurance products such as credit shield, also known as risk mitigation funds that often do not meet the priority risk needs of low-income households. A very small portion (177,312) of current demand is from crop microinsurance targeting smallholder farmers.<sup>14</sup>

**While current demand remains comparably low, the future growth prospects are impressive and can come from more than 30 million smallholder<sup>15,16</sup> farm enterprises and 7.8 million MSMEs<sup>17</sup> in Bangladesh who are frequently exposed to economic or climatic shocks causing income losses.** The study identified more than 15 priority risks of farm and non-farm enterprises that are currently not covered by microinsurance products. It also identified five microinsurance subsectors as having opportunities for the development of demand-driven microinsurance schemes for smallholder farmers and MSMEs. These include light engineering (LE), furniture, mango, retail and handicrafts.

**Whilst most ICs currently lack any incentive to expand into microinsurance, the market leading microinsurance companies do have a vested interest in developing the sector.** Of the 81 life and non-life ICs only six are engaged in microinsurance. The market leaders in life microinsurance are Guardian Life and Pragati Life, and for non-life Green Delta Insurance Company (GDIC) and Sadharan Bima Corporation (SBC). These four companies have a long-term commitment from their management to develop the microinsurance market. However, to date they have been predominantly funded by short term development projects where there is

<sup>12</sup> Swiss Re Institute. 2021. Sigma Report. World insurance: the recovery gains pace. No 3/2021.

<sup>13</sup> Khan, R. 2020. Climate Risk and Microinsurance. The Case in Bangladesh; and Climate Risk Insurance gets a Major Boost in Bangladesh. News Article June 2020.

<sup>14</sup> Coverage from Component 2 of BMMDP, March 2022

<sup>15</sup> Extrapolation of data from Bangladesh Agricultural Census Data, 2019; Yearbook of Fisheries Statistics of Bangladesh 2018-2019; Bangladesh Bureau of Statistics, Economic Census, 2013.

<sup>16</sup> Extrapolation of data from Bangladesh Agricultural Census Data, 2019.

<sup>17</sup> The World Bank. 2019. Financing Solutions for Micro, Small and Medium Enterprises in Bangladesh.

a low barrier to exit at the end of the funding period. Any future partnerships with the market leading microinsurance companies will require a new approach with different incentives to ensure sustainability of activities. All other insurers are making sufficient money from existing higher income markets in urban areas, and are not convinced that microinsurance is profitable. They are therefore not incentivized to target more remote, and often more difficult rural markets.

**MFIs in Bangladesh have an unparalleled position to expand and significantly grow the microinsurance market.** They offer existing, efficient and trusted distribution networks that, if leveraged, could assist in unlocking demand. MFIs in microinsurance can be categorized as ‘PKSF led’ MFIs or ‘other’ MFIs. **MFIs dominate the microinsurance market via their mandatory credit risk-based insurance tied to microcredit loans that reach more than 35.6 million low-income households.**<sup>18</sup> Other types of products offered by some MFIs, e.g. through the BMMDP, are livestock risk mitigation services, where credit risk coverage is complemented with extension services. **At present many MFIs use the funds collected from premiums to bolster their revolving ‘capital’ funds from which they provide microcredit to their customers. This practice acts as a disincentive for MFIs to collaborate with ICs, because in partnering with ICs they would by law be required to pass the premiums back to the ICs, thus losing the option to top up their ‘capital’ funds.**

**Beyond MFIs, distributors of microinsurance products that can reach smallholder farmers and MSMEs have not been developed at scale.** Insurance company agents are the next most widely used, however, primarily limited to urban areas. BMMDP is currently piloting some other distribution networks where opportunities exist. These include agri-input companies, Farmer Hubs, Banking / Agent Banking (bancassurance), Department of Livestock Services (DLS) extension services, vets, and animal health / pharmaceutical companies. International experience has shown that large corporate buyers, cooperatives, and industry associations are also potential distributors.

**For reinsurance, non-life microinsurance companies must obtain 50% of their total reinsurance business from the state-owned reinsurer SBC, and the balance from an international reinsurer – in such a nascent<sup>19</sup> microinsurance market, finding reinsurers internationally can be difficult and costly.** Bangladesh has only two reinsurers, both state-owned, SBC is the reinsurer for non-life insurance and Jiban Bima Corporation (JBC) for life insurance. **The cost of purchasing reinsurance from international companies outside of Bangladesh acts as a disincentive for product innovation in non-life microinsurance schemes.** Both JBC and SBC operate well below their capacity, primarily due to lack of technical capacity of management and staff, limited use of IT, and inefficient business practices. The WB is currently supporting to build their capacity and improve their IT systems as part of their Insurance Sector Development Project (2017-2024).

**MFIs by law are not able to obtain reinsurance which limits the scope of microinsurance products to those where the risk of claims and pay-out is of relatively low value.** The regulation allows MFIs’ credit risk insurance to be covered by their own capital funds. For those MFIs who are PKSF’s Partner Organizations (POs) they can access PKSF’s Covariant Risk Fund (CRF) for a fee which acts as a form of reinsurance. If an MFI offers any other type of insurance beyond credit risk, they need to partner with an insurance company who can then obtain reinsurance for the microinsurance scheme.

<sup>18</sup> Credit and Development Forum, 2019 - 2020

<sup>19</sup> Insurance Development and Regulatory Authority (IDRA). 2018. Annual Report. Note: In FY 2017-18 Bangladesh had an insurance market valued of US\$1.35 billion or equivalent of US\$8 per person. In comparison India has an insurance market worth US\$98 billion or US\$71 per person. Therefore the Bangladesh market has the potential to grow by a factor of 10 adding US\$13.5 billion in premiums.

**A range of support functions (services and infrastructure) are critical to the success of an inclusive microinsurance system in Bangladesh.**

- Financing and Investment
- Communication and Information
- Risk Mitigation Services
- Legal Support
- Actuarial Services
- Technological Infrastructure
- Data Analytics
- Product Development
- Collaboration and Advocacy
- Capacity Development
- Surveyors

**Several of these support functions are considered ‘critically lacking’.** These include:

i) *Data Analytics.* There is lack of accessible and/or available data and insights from which the sector can develop and price insurance products and understand the market opportunities. There are no commercial providers of data and insights in Bangladesh, and nor is there any accessible database or knowledge bank leveraging years of information from the many development partner pilots. This has resulted in products being supply driven and not addressing the risk needs of the beneficiaries; products are priced arbitrarily and not in line with demand; and there is limited effective advocacy and policy dialogue due a lack of evidence-based data.

ii) *Product Development.* A lack of product development support and know-how leaves the sector with limited product innovation and microinsurance products that do not meet the needs of low-income households. Development partner projects have not developed any local capacity for product development, instead engaging international service providers. Not only does this result in more expensive product development processes but does not encourage other actors to commercially offer capacity building services for product development.

iii) *Collaboration and Advocacy.* There is no multi-stakeholder coordination mechanism to advocate for an improved microinsurance enabling environment. Collaboration amongst the key actors is poor, as is advocacy. Conflicts of interest and a lack of understanding on the benefits of microinsurance has resulted in the private sector and public sectors not effectively collaborating with each other.

iv) *Technological Infrastructure.* Bangladesh currently lacks local capacities and service providers to support and build technological microinsurance solutions. Technological solutions (insurtech) are key to not only improving the efficiency of the microinsurance sector but also in reducing the cost base making insurance more affordable for beneficiaries.

v) *Capacity Development.* There are limited capacity building providers to address the many skills gaps of the sector. Whilst multiple public sector organizations (IDRA, ABIA, BIA, and MRA) all have important roles in the capacity building of stakeholders in the microinsurance sector they all lack the capability or incentive to do so. There are few private sector suppliers that address the diverse range of professional skill gaps. Strategic investment in local skills and training providers is needed.

**Key rules that impact the microinsurance sector beyond the absence of a weak and fragmented regulation are:**

- Government tariffs for non-life microinsurance products that provide a disincentive for product development and demand-driven pricing strategies;
- The Consumer Protection Act, 2009 does not include the financial sector i.e. microinsurance, therefore exposing policy holders to fraudulent acts by insurers;
- Value Added Tax (VAT) raises the price of premiums for the insured often impacting affordability of microinsurance products;
- Lack of specific policies for agricultural and livestock products inhibiting MOA's and MOFL's ability to support the development of the microinsurance market and the development of agricultural and livestock products by ICs.
- A lack of inter-agency collaboration in the governance of microinsurance and policy development.

**Key informal norms that impact the microinsurance sector include:**

- Prevailing gender inequality increases women's exposure and vulnerability to climate and economic risks providing opportunities for female driven microinsurance products.<sup>20</sup> As potential key decision makers, women can be difficult to reach for awareness activities or for microinsurance sales and marketing activities.
- The distrust of ICs and their schemes by smallholders and MSMEs.
- Low-income households consider insurance a cost of credit negating or ignoring its risk mitigation benefits.
- **ICs perception that without subsidies or mandatory insurance from the government microinsurance will not be profitable.**
- Some government officials believe that subsidies reduce farmer productivity and increase dependency on government support, thus preventing them from supporting microinsurance.

**The microinsurance market of Bangladesh is influenced by several interconnected market systems. The crop and livestock markets** are highly relevant to the microinsurance sector in Bangladesh. For the crop sector most microcredit schemes provided by MFIs are crop loans and around 40%<sup>21</sup> of MFI clients invest their microcredit in livestock rearing. As both sectors focus on improving productivity whilst at the same time, they are impacted by climate change, the microinsurance sector has a key role to play and vice versa.

Likewise the **microcredit market system** has a close association with microinsurance. The more the microcredit coverage increases, the more the microinsurance sector can develop. Another key interconnected market is the **MSME sector**. The large number and growth of MSMEs in Bangladesh are positives for the further development of the microinsurance sector. **As MSMEs grow, they become more liable to various accidents such as fires, theft, market failures, supply chain blockades, etc. thus increasing demand for microinsurance products.**

**As outlined above Bangladesh's microinsurance market currently faces many challenges and constraints to growth.** Refer to Page 65 for a detailed Problem Tree. **Despite these challenges there are many opportunities and entry points to address the challenges and their systemic constraints and improve the microinsurance market.** These include provision of data and insights to guide product development and a shift in policy; development partner coordination to leverage past and future investments; **policy dialogue to help shift the regulatory environment**; commercial and other smart incentives to stimulate investment in demand led microinsurance schemes and critically lacking supporting services such as product development, insurtech, information etc; and capacity building of both public and private players to advocate, deliver professional skills and effectively collaborate.

<sup>20</sup> IBID

<sup>21</sup> PKSF, August 2021.

**The short-term vision for the microinsurance sector in Bangladesh** is for multiple stakeholders to commence collaborating and advocating for a more conducive regulatory environment. Leading ICs to begin leveraging technology (IT systems, Insurtech etc.) and innovative partnerships with public-private-not for profit organizations offering market led microinsurance schemes that are based on demand and risk assessments of the targeted beneficiaries in selected farm and non-farm subsectors in Bangladesh.

**Recommended intervention areas and potential partners for a possible Phase II of BMMDP include:**

- *Provision of Data and Market Insights:* The provision of evidence-based data to shift policy dialogue, develop and price market driven insurance schemes and supporting services. Facilitate international agencies like Global System for Mobile Communication Association (GSMA), Access to Insurance Initiative (A2ii), and Microinsurance Centre to establish a Bangladesh digital data centre that can allow insurance service providers along with development partners to purchase data and market insights on demand. This intervention is an essential foundational area that supports all the recommended interventions. It could start in Phase I.
- *Development Partner Coordination and Sector Learning:* Critical to ensure development partner projects leverage their vast knowledge and resources of past and future investments, including SDC's global and regional investment and experience in microinsurance.
- *Building a Private Sector Led Support Service Market for Insurtech:* Develop private sector microinsurance technology (insurtech) support services that will enable microinsurance companies to invest in digital solutions. Partner with global service providers like Pula who in turn can partner with local organizations and insurance providers to develop local capacities. Technology areas could include MFS integration for claim settlement, cattle identification, weather data, and digital insurance policy administration.
- *Innovative Product and Service Incubation:* Building on lessons learned from BMMDP Phase I provide catalytic grants for smaller scale business and product innovation pilots. This intervention would support commercial driven local business models to fulfil critically lacking supporting services (e.g. data and insights and product development) and demand driven products. It will foster innovative partnerships between MFIs, ICs, Mobile Network Operators (MNOs), data service providers and other market actors who would be critical to distribution channel development, customer acquisition and resource management for commercially viable and market led microinsurance products in Bangladesh. This intervention could benefit from government backed smart incentives providing access to a possible market development fund or impact fund that can be availed if targeted results are achieved.
- *Microinsurance Policy:* Initiate a high-level multi stakeholder task force, under the auspices of the Ministry of Finance, to stimulate debate and dialogue for a microinsurance policy in Bangladesh and a roadmap for microinsurance market development. This intervention could also develop a roadmap for individual microinsurance policies for agriculture and livestock. Evidence based data and insights from BMMDP's other interventions would feed into the task force to get government buy in and inform and influence policy development.
- *Institutional Capacity Development:* Facilitate the development of meso level organizations such as BIA and ABIA to champion microinsurance strengthening sector collaboration, advocacy and professional skill development. Activities such as high level national and international events, case studies, training and workshops, and a product development hackathon could provide a boost for capacity development of BIA and ABIA. For this, the project can learn from the Exporter's Forum under Bangladesh Furniture Industries' Owner's Association (BAFIOA), which was formed by the Katalyst project implemented by Swisscontact.

Each recommended intervention area will address one or more of the microinsurance sectors' key challenges. Tackling each challenge via multiple intervention areas and from slightly different trigger points will enable BMMDP to develop a diverse range of partnerships that will broaden and deepen the project's engagement in the sector and potentially fast track systemic change.<sup>22</sup> Table 1 provides an overview of the key challenges and the intervention areas that will be implemented to address each one.

Table 1: Key Challenges in the Bangladesh Microinsurance Market and Recommended Intervention Areas to Address These

Key Challenge	Key Intervention Areas to Address Challenge
<b>Lack of Product Development by MFIs and Insurance Companies</b>	<ul style="list-style-type: none"> <li>- Provision of Data and Market Insights</li> <li>- Building a Private Sector led Service Market for Insurtech</li> <li>- Innovative Product and Service Incubation</li> <li>- Development Partner Coordination and Sector Learning</li> <li>- Microinsurance Policy</li> <li>- Institutional Capacity Development</li> </ul>
<b>Product Development is Supply Driven</b>	<ul style="list-style-type: none"> <li>- Provision of Data and Market Insights</li> <li>- Building a Private Sector led Service Market for Insurtech</li> <li>- Innovative Product and Service Incubation</li> <li>- Development Partner Coordination and Sector Learning</li> </ul>
<b>Critically Lacking Local Support Services for Microinsurance Product Development and Implementation</b>	<ul style="list-style-type: none"> <li>- Building a Private Sector led Service Market for Insurtech</li> <li>- Innovative Product and Service Incubation</li> <li>- Provision of Data and Market Insights</li> </ul>
<b>Lack of clarity of Microinsurance Regulatory Framework</b>	<ul style="list-style-type: none"> <li>- Microinsurance Policy</li> <li>- Provision of Data and Market Insights</li> <li>- Development Partner Coordination and Sector Learning</li> <li>- Institutional Capacity Development</li> </ul>
<b>Absence of inter-ministerial coordination and buy in</b>	<ul style="list-style-type: none"> <li>- Microinsurance Policy</li> <li>- Data and Insights</li> <li>- Development Partner Coordination and Sector Learning</li> <li>- Institutional Capacity Development</li> </ul>
<b>Lack of innovative partnerships - minimal collaboration and communication between insurance companies, MFIs and other innovative actors</b>	<ul style="list-style-type: none"> <li>- Provision of Data and insights</li> <li>- Building a Private Sector led Service Market for Insurtech</li> <li>- Innovative Product and Service Incubation</li> <li>- Institutional Capacity Development</li> <li>- Microinsurance Policy</li> </ul>

<sup>22</sup> Evidence from the Market Development Facility (MDF), Pakistan in 2017 showed that addressing key challenges via multiple intervention areas and via different trigger points can fast track systemic change.

Combined these interventions provide new opportunities for BMMDP to create systemic change in the microinsurance sector that to date have not been addressed.

- **There is a clear opportunity for a Phase II designed on market systems development principles and incentives.** Investments from development partner projects (other than components of BMMDP Phase I) have not taken a market systems development (MSD) approach, nor addressed key systemic constraints of the microinsurance market.
- **Taking the role of neutral facilitator** is a key part of a MSD approach. This will assist BMMDP avoid being engaged in any conflict of interest, either institutional or as an actor in the microinsurance market.
- **The availability of improved data and insights to drive evidence-based decision making for BMMDP and for all actors in the microinsurance market will not only fill the existing void but could unlock support for the microinsurance sector from key stakeholders.**
- **Smaller scale innovative pilots that are built on best practice for deal making according to MSD principles** e.g. commercially driven partnership agreements, rather than solely on donor interest will avoid entering unsustainable activities.
- **Having a diversified sector portfolio to bring new evidence.** Microinsurance for the agricultural sector is considered by insurers as one of the most difficult sectors to develop. This MMSA has identified other non-farm sectors with easier entry points for developing microinsurance products. Diversifying the portfolio allows several trigger points to be accessed and an appropriate diversification of risks.
- Whilst previous projects have included some advocacy activities, these have been ad hoc. Having a **dedicated intervention for policy dialogue** will bring structure, purpose and consistency to the advocacy process and ultimately influence the enabling environment. **Having the right implementation team who can engage at the policy level convening different interests will be advantageous to BMMDP.** Securing the opportunity for SDC in Bangladesh to play a proactive role influencing policy dialogue is also key.
- **Further leverage the comparative advantage of SDC and Swisscontact's expertise** in microinsurance and market systems development globally and regionally to maximise effectiveness and impact of microinsurance interventions in Bangladesh.

## 1. Introduction

Bangladesh Microinsurance Market Development Project (BMMDP) is a five-year project (October 2017 to December 2022) with a budget of CHF 8.66 million mandated by the Swiss Agency for Development and Cooperation (SDC) and managed by Swisscontact. The goal of BMMDP by Dec 2022 is to improve farmers' well-being through enhanced agricultural productivity and resilience to natural disasters. BMMDP will achieve this goal by making relevant crop insurance and livestock risk mitigation products and services available and accessible to farmers achieving at least 336,000 insured farmers by 2022. BMMDP targets smallholder farmers, particularly women, poor and disadvantaged, as ultimate beneficiaries.

BMDDP's Phase I has three key components:

- **Component 1 (C1) Crop Surokkha** implemented by Syngenta Foundation for Sustainable Agriculture Bangladesh (SFSA Bangladesh).
- **Component 2 (C2) Livestock Surokkha** implemented by Palli Karma Sahayak Foundation (PKSF).<sup>23</sup>
- **Component 3 (C3) Surokkha - Sector capacity development in agricultural microinsurance** implemented by Swisscontact.

Phase I of BMMDP (2017-2022) focuses on piloting and testing different insurance products and distribution channels to identify and develop appropriate Weather Index-based Crop Insurance (WIBCI) products and risk mitigation methods for the agriculture sector (initially, crop and livestock sub-sectors).

**The aim of this Microinsurance Market Systems Analysis (MMSA) was to gain a better understanding of the broader microinsurance market in Bangladesh and its potential sub-sectors.** Insights from this MMSA will be fed into recommendations on existing Phase I pilots and future intervention areas for a possible Phase II of BMMDP.

The study was completed between December 2021 and March 2022 using extensive desk research, Key Informant Interviews (KIIs) and Focus Group Discussions (FGDs) in Nilphamari, Rangpur and Dinajpur districts in February 2022.

## 2. Defining Microinsurance

**Microinsurance** is insurance with modest premium levels accessed by low-income and poor people to manage their risks. A modest premium level would be an annual premium that is not more than 10 days income for a beneficiary. Microinsurance products are developed specifically to serve the low-income population although some micro-insurers are moving into inclusive insurance to catch higher income groups that currently do not have access to insurance.<sup>24</sup> The insurer is the risk carrier, and the product developed must lead to profitability for the insurance company, or at least sustainability, and be managed on the basis of insurance principles.<sup>25,26</sup> For example,

- Crop microinsurance: An insurance product which insures poor or smallholder farmers against the loss of their crop due to natural events such as drought, flooding, hail etc.
- Livestock microinsurance: An insurance product which insures poor or smallholder farmers losses as a result of the death, disability, and/or sickness of livestock.

Important Note: In Bangladesh and therefore in BMMDP, the term livestock microinsurance is not used due to regulatory issues, however the term livestock risk mitigation services is used and is broader than insurance. Livestock risk mitigation services include a range of tools and services (e.g. livestock extension

<sup>23</sup> The public-private apex body of Microfinance Institutions in Bangladesh.

<sup>24</sup> www.stonestep.ch Note: The shift to higher income groups and mass market is one of the fundamentals of inclusive insurance. The growth of Bancassurance as a distribution network that can assist with the shift to higher income groups.

<sup>25</sup> Women's World Banking. 2017. Successful microinsurance starts with having the right mindset.

<sup>26</sup> Source: Adapted from Microinsurance Network. 2020. The Landscape of Microinsurance 2020.

services, veterinary assistance etc.) that assist mitigate the smallholder farmers' risk of livestock losses from death, disability, and/or sickness.

### 3. History of Microinsurance in Bangladesh

An overview of the history of microinsurance in Bangladesh is presented in Figure 1 below. Further details of development partner projects from the last decade (2012-2022) can be found in Annex 8.

Microinsurance in Bangladesh has been led by the NGOs and MFIs from as early as 1972 when BRAC first introduced a prepaid health insurance scheme which was later followed by Gonoshasthya Kendra (GSK) health coverage in 1978. In 1977 SBC was the first to introduce Multi-Peril Crop Insurance to provide coverage against floods, pests, diseases, etc., and then in 1981, SBC followed it up by providing livestock risk mitigation schemes against accidental mortality and diseases in cattle.

In the late 1980's MFIs started to primarily offer credit risk insurance programs to minimize institutional risks and to mitigate the risk faced by their borrowers. This decade also saw the development of life insurance products targeting rural villages by Delta Life.

Then in the 1990's MFIs such as Proshika, Sajida Foundation, and Grameen Bank were the first MFIs to follow suit in this sector by providing livestock credit insurance.

In 2001 BRAC was the first to introduce Micro Health Insurance (MHI) for poor rural women (BRAC-MHIB) in three districts.

In 2006 the MRA Act, under Clause 24 (h), gave a significant boost to MFI led risk mitigation services granting registered MFIs the authority and responsibility to offer different types of insurance services for their loan recipients along with family members.<sup>27</sup> For example in 2006 Sajida Foundation introduced its scheme 'HELP' covering Loan & Life, Health, Disaster, Education Scholarships and Legal Support Insurance schemes. International Network of Alternative Financial Institution (INAFI) launched Microinsurance Mutual Entity (MIME) program aimed at the extreme poor to cover them with life insurance.

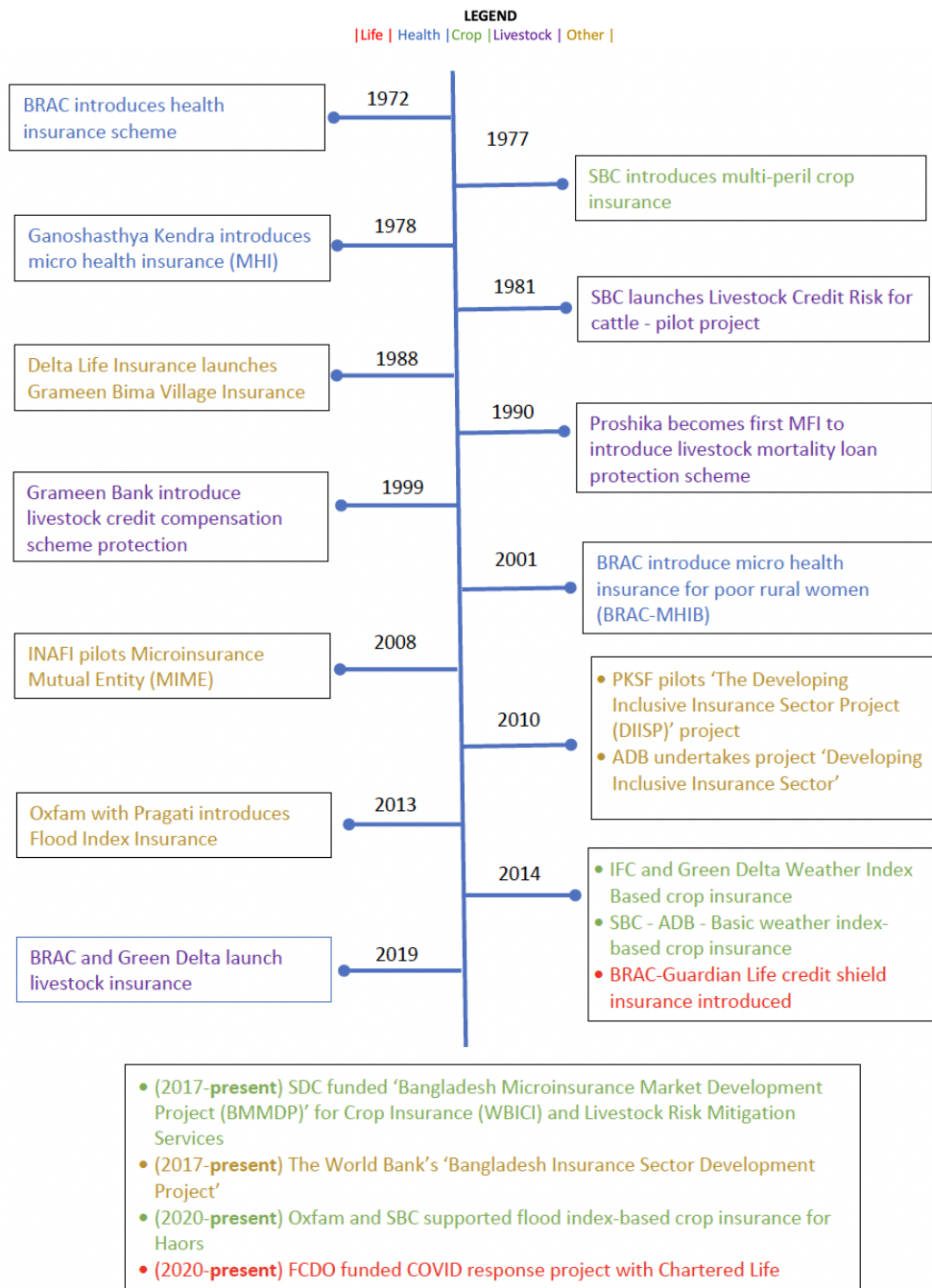
From 2010 onwards, a number of development partners, e.g., Oxfam, International Finance Corporation (IFC), Asia Development Bank (ADB), FCDO etc., funded Weather Index-based Crop Insurance (WIBCI) schemes incorporating weather data to ascertain risks. This decade also saw the emergence of a variety of life, accidental, and property insurance products and some composite products incorporating life, asset and liability coverage. Livestock risk mitigation services (asset and liability coverage of livestock) were also developed by a number of MFIs and ICs.

The figure below shows the evolution of microinsurance in Bangladesh since 1970's until 2022.

For more information on the lessons learned from development partner projects refer to Section 9.

<sup>27</sup> Under the MRA Act 2006, Clause 24 (h) "Offer different types of insurance services and other social development-oriented loan facilities for loan recipients and members of their families".

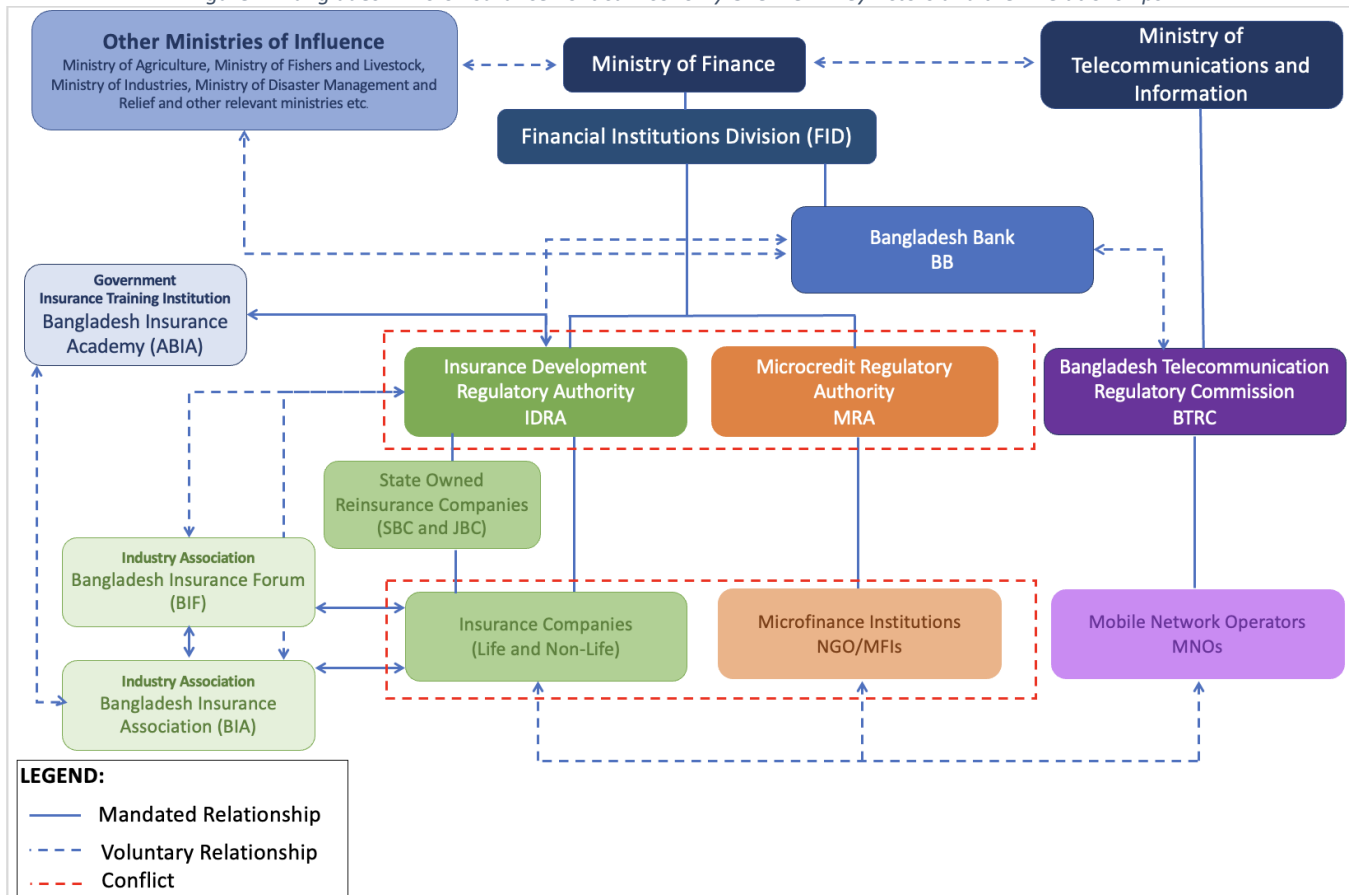
Figure 1: Overview of the History of Microinsurance, Bangladesh



## 4. Political Economy of Microinsurance in Bangladesh

This section outlines the current political economy, its key actors and their relationships and incentives that positively or negatively impact the microinsurance sector in Bangladesh. The actors and their relationships are outlined in Figure 2 below.

Figure 2: Bangladesh Microinsurance Political Economy Overview: Key Actors and their Relationships



**Ambiguity between two key regulators:** There are two key regulators involved in the microinsurance market. IDRA and the MRA. Both report to the FID of the MOF.

IDRA’s mandate is to regulate the insurance market, however there is no clear mandate in the 2010 Insurance Act for IDRA to regulate the microinsurance market. MRA’s mandate is to regulate the micro-credit market i.e., MFIs and whilst the 2006 MRA Act, states that MFIs are able to provide credit linked micro-insurance products to their members the provision of other microinsurance products is not clear.

The absence of a unified regulatory framework for the microinsurance sector, nor any mutually understood definition of microinsurance has created ambiguity between IDRA and MRA, resulting in no consensus on who regulates microinsurance, severely impacting the development of the sector.

IDRA takes a firm stance that as they regulate the insurance market that they should also regulate the microinsurance market. More recently, IDRA is willing to solve the regulatory issue incentivized by the need to increase the insurance sector’s contribution to Bangladesh’s GDP and therefore positively impacting the economic and social progression of the country. However, it is currently constrained by a lack of human capacity (operating at only 10%) and the reluctance of general ICs to support the development of the microinsurance market. Whilst building capacity of IDRA is important, getting the general ICs on side is critical and could take years. The ICs are represented by two industry associations who have significant influence over IDRA: i) the BIA; and ii) the Bangladesh Insurance Forum (BIF). Whilst both are in favour of microinsurance they prefer a microinsurance market without MFIs (Read below for more details.)

MRA's stance is that they have the capacity and expertise to successfully regulate NGO/MFIs in the microinsurance market but not general ICs.

For more than a decade various actors have unsuccessfully advocated for **the development of a comprehensive microinsurance regulatory framework** with three potential solutions floated:

- 1) Harmonization of both the MRA and IDRA regulations so that both regulations include a section to confirm that MFIs, ICs and other relevant entities to develop, sell, distribute etc microinsurance.
- 2) Inclusion of microinsurance regulations within the existing *Insurance Development and Regulatory Authority Act, 2010* where ICs and MFIs obtain licenses / permission to offer microinsurance from IDRA.
- 3) A separate and third microinsurance regulator and regulation whereby ICs and MFIs must obtain a license to offer microinsurance.

**The need to resolve the ambiguity and harmonize Bangladesh's inclusive insurance regulatory framework has also been identified in the 2019 Economist Global Microscope Report.**<sup>28</sup> The study focuses on the regulatory and policy environments of 55 countries with Bangladesh ranked 42<sup>nd</sup> for harmonized requirements for inclusive insurance products and 25<sup>th</sup> for a dedicated regulation for inclusive insurance.

MOF has a role to play in resolving this current conflict however to date has not used its influencing powers, particularly in assisting to get the general ICs onside. The key informant interviews with FID of MOF highlighted their interest in resolving these issues, however eluded that it was for IDRA to resolve. **More understanding of MOFs disincentives to play a role in resolving this is needed.**

**Public sector political will for microinsurance does not translate into action:** Despite the tensions between IDRA and MRA, there is an interest from other key government ministries and departments, including the Prime Minister, to develop a supportive regulatory environment for microinsurance. However, despite this interest there has been very little action or use of political power to effect change (reasons detailed below). **The research identified a key reason being that despite the request from high level officials, they have not been presented with evidence-based data demonstrating the economic and social benefits of microinsurance on Bangladesh's economy.** Beyond general benefits evidence of microinsurance's positive medium to long term impact on government expenditure, and evidence that microinsurance improves the confidence and productivity of farmers, and that in the event of subsidizing agricultural premiums that agricultural productivity will increase, not decrease etc. could provide them with the comfort needed to unlock their influencing powers.

At the 15th International Conference on Inclusive Insurance in Dhaka in 2019, the Prime Minister of Bangladesh, confirmed the significance of microinsurance to the government, noting that "if geared to tackle the situations arising out of climatic hazards, it [microinsurance] will go a long way to address the needs of the millions living mainly at the lower rung of the society". In addition, Senior Secretary from the Ministry of Finance stated that "the concept of microinsurance is yet to become familiar with the people in Bangladesh". As an indication of the GOB's objectives in microinsurance, the Senior Secretary publicly committed to a goal of 25% of the total population of Bangladesh to have microinsurance coverage by 2025.<sup>29</sup>

Recognizing the need to improve the regulatory environment for insurance, IDRA has identified 50 rules and regulations which need to be passed by parliament to enforce the provisions of the Insurance Act 2010. To date only 11 of these new rules have been implemented. Enactment of rules in the Act requires approval from IDRA, MOF, and parliament. Further research is needed to understand why these have not been approved, despite the FID's acknowledgement that an improved enabling environment is needed.<sup>30</sup>

The GOB has also laid out multiple plans and policies that ensure the smooth provision of various insurance products and services. **Some of these are highlighted in the 8<sup>th</sup> Five Year Plan (2020-2025) however to date none have been achieved or show any promise of action.**

In 2021 the GOB announced its investment in a US\$70.75 million project (part loan by the WB) to ensure faster upgrading and digitalization of the insurance sector as well as enhanced capacity of IDRA. Improving the IT infrastructure and bringing digital innovation to the sector will help delivering microinsurance products to low-

<sup>28</sup> The Economist Intelligence Unit. 2019. Global Microscope 2019: The Enabling Environment for Financial Inclusion.

<sup>29</sup> IBID

<sup>30</sup> Key Informant Interviews, January 2022.

income households.<sup>31</sup> The project was due to be completed this year however has a revised end date of 2024 due to significant delays in procurement and implementation due to COVID-19. Refer to Development Partner Landscape in Section 9 and Annex 7.

On a positive note, the Bangladesh Bank (BB) as the regulator of Banks and Non-Bank Financial Institutions (NBFIs) is playing a leading role in creating policy guidelines for collaboration between ICs and Banks / NBFIs. This will assist the development of bancassurance in Bangladesh unlocking an untapped distribution network. One of the first initiatives due to be launched in March 2022 is microinsurance services bundled with agricultural credit. The BB can also play a critical role in the integration of MFS for collecting microinsurance premiums and enabling faster claims settlements.

Beyond IDRA, MRA, BB and MOF, there are multiple government bodies that have a stake in the development, and maintenance of the microinsurance sector. Each of these influences the regulatory and business enabling environment. The **Bangladesh Telecommunications Regulator (BTRC)** impacts the ease at which Mobile Network Operators (MNOs) or Telecommunication Value Added Services Providers (TVAS) can offer microinsurance products and services.

In Agriculture the **Ministry of Agriculture (MOA)** and **Ministry of Fisheries & Livestock (MOFL)** are responsible regulating their respective sectors and have the potential to advocate for microinsurance for crop, livestock and fisheries. Both ministries and their relevant departments are firm believers in the need for microinsurance however some high-level officials in MOA are firmly against any form of subsidies for microinsurance, particularly the premium, fearing that they will discourage farmers to increase productivity. This results in limited inter-ministry collaboration or use of political power to enhance the microinsurance market.

There is a clear need for mechanisms that encourage consistent and effective coordination and collaboration of key political actors engaging in microinsurance policy dialogue.

**Conflict between ICs and MFIs:** A byproduct of the absence of a harmonized and clear microinsurance regulation is ongoing conflict between MFIs and ICs. Whilst there have been discussions between MFIs and ICs to solve this, and some examples of partnerships there is a general reluctance from both sides to work together.

MFIs have an existing lucrative market via mandating credit-based insurance with their loans. They are making significant, and relatively easy profit from collecting this mandatory premium on the loan. If MFIs were to partner with ICs to develop and distribute microinsurance products they would by law be required to pass the premiums back to the ICs, thus losing the option of using it to bolster their revolving funds from which they provide loans to their customers. There have been attempts where ICs agreed to return 5% to 6% of the premium back to MFIs however with VAT issues, MFIs did not see the economic value.

ICs are also making sufficient profits from higher income urban based insurance customers and from microinsurance products in life and health. Given the success of the microcredit sector in Bangladesh, ICs see MFIs as a competitive threat to their core insurance market and are reluctant to share a percentage of the premium. Furthermore, the majority of ICs currently do not view microinsurance as a profitable sector. Only three to four ICs are prepared to be first movers. Establishing smart incentives could assist de-risk ICs' entrance, and incentivize additional actors into the microinsurance market.

Oxfam's current Flood Indexed-Based Insurance pilot targeting smallholder farmers and due to end in 2022, after three years is just beginning to see some traction with ICs and MFIs working together on the development of a tiered payment system where MFIs would be rewarded based on the amount of premium they collect. If this proves successful it could set the trail for others to follow.

Despite a challenging political economy there are opportunities to assist resolve some of these key bottlenecks. A range of advocacy interventions with various actors is urgently needed. To date there has not been any consistent or effective advocacy to ICs, BIA, IDRA, MOF etc. Furthermore, developing a multi-stakeholder task

<sup>31</sup> Insurance Alerts. 2021. Bangladesh: Govt in multimillion-dollar project to digitize insurance sector.

force could provide opportunities for increased inter-agency collaboration for the development of a policy roadmap. Supporting evidence-based policy decision making is key.

## 5. Overview of Global Microinsurance Market

Microinsurance has moved up the agenda among ICs globally and there are now enough success stories to convince the vast majority that microinsurance can be successful, at least for certain product types and distribution arrangements. The global microinsurance market was valued at US\$73.6 billion in 2020 and by 2026 it is expected to reach US\$103.5 billion with a Compound Annual Growth Rate (CAGR) of 5.7% during 2021-2026.<sup>32</sup> Approximately 290 million people worldwide are covered by at least one microinsurance policy.<sup>33</sup> Life and accident insurance make up the bulk of the microinsurance market.<sup>34</sup>

The increasing access to financial services among all income groups and the growing consumer awareness towards the importance of microinsurance represent some of the key factors catalysing the global microinsurance market.<sup>35</sup> Regardless of this significant growth, a large portion of the estimated 4 billion potential low-income households are still uninsured and remain trapped in poverty.

## 6. Climate Change Impacts on Microinsurance Markets in Bangladesh

Microinsurance customized to specific needs of vulnerable and low-income populations, is an essential ingredient in addressing the risks associated with the impacts of climatic change.<sup>36</sup>

**Bangladesh is the seventh most climate change-vulnerable country in the world and ranked fifth in terms of economic losses due to climate change which in the past 20 years (2000-2019) totalled US\$ 3.72 billion.**<sup>37</sup> More recently from 2016-2020 economic losses due to natural disasters accounted for 0.8 to 1.1 percent of the country's GDP.<sup>38</sup>

**Approximately 56% (90 million) of Bangladesh's population live in "high climate exposure areas" with 53 million subject to "very high" exposure.**<sup>39</sup> By 2050, one in seven people in Bangladesh will be displaced by climate change.<sup>40</sup> With a projected 50 cm rise in sea level, Bangladesh may lose approximately 11% of its land, and up to 18 million people may have to migrate because of sea-level rise alone.<sup>41</sup> Sea-level rise not only causes land loss but also salinization with salt infiltrating agricultural land, hindering crop growth, and also threatening drinking water supplies of tens of millions of people in coastal communities. As of 2020 up to 50% of rural displaced persons living in Bangladesh's urban slums note they were forced to flee their rural homes as a result of riverbank flooding or other changing environment issues.<sup>42</sup>

**Low levels of awareness and poor understanding of climate change risks,** combined with significant knowledge gaps about climate change processes, have hindered effective societal decision making around issues of climate change adaptation and mitigation in Bangladesh.<sup>43</sup>

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<sup>32</sup> IBID

<sup>33</sup> Insurance Information Institute. 2021. Background on: microinsurance and emerging markets. Published 27 September 2021. Accessed via: <https://www.iii.org/article/background-on-microinsurance-and-emerging-markets>

<sup>34</sup> Institute of International Finance and Center for Financial Inclusion. 2018. Inclusive Insurance: Closing the Protection Gap for Emerging Customers.

<sup>35</sup> IBID

<sup>36</sup> Khan. M.R., Roddick. R., and Roberts. E. 2013. Assessing Microinsurance as a Tool to Address Loss and Damage in the National Context of Bangladesh.

<sup>37</sup> Germanwatch. 2021. Global Climate Risk Index (CRI) 2021. Who Suffers Most from Extreme Weather Events? Weather-Related Loss Events in 2019 and 2000-2019. Briefing Paper. January 2021.

<sup>38</sup> Ministry of Disaster Management and Relief. 2020. National Plan for Disaster Management (2021-2025).

<sup>39</sup> USAID. 2018. Fragility and Climate Risks in Bangladesh.

<sup>40</sup> Chowdhury, M.A. et al. 2020. Climate change impacts and adaptations on health of Internally Displaced People (IDP): An exploratory study on coastal areas of Bangladesh.

<sup>41</sup> Environmental Justice Foundation. 2021. Climate Displacement in Bangladesh.

<sup>42</sup> IBID

<sup>43</sup> Asia Development Bank. 2020. Climate Change and Gender in Bangladesh. Information Brief.

**Extreme weather events are undermining the performance of the agricultural sector.** As an agriculture-based economy where approximately 70% of the population depend on agriculture for their livelihood, a significant proportion being from the bottom of the pyramid, negative climatic impacts will have devastating consequences for the poor and marginalized smallholder farmers leaving them in a vicious cycle of poverty.

Rice production is predicted to fall by 8% by the year 2050.<sup>44</sup> Wheat production is expected to decrease by 32%, and yields of pulses will reduce by 8.8%, oilseed-grapeseed by 6.3%, vegetables (as a group) by 5.3%, and other crops (including jute) by 3.3%.<sup>45</sup> Livestock is faced with reduced feed stocks and increased occurrence of diseases resulting in reduction of weight gain in animals and less milk production. In the fisheries sector, increased temperatures are introducing new diseases and farmers are experiencing reduced growth and reproduction success of most fish species.

**Climate change is not gender neutral. Women bear the brunt of the impacts of climate change and poor women are 14 times as likely to die from a climate disaster than men.**<sup>46</sup> In Bangladesh prevailing gender inequality often intersects with other forms of vulnerabilities which limit women and girls' access to resources and decision-making power, inhibiting their ability to withstand the impacts of climate change, access basic services and recover from climate-related disasters.<sup>47</sup>

Rural women's work is concentrated in agriculture, which is the sector hardest hit by climate change. Loss of harvests, often their sole sources of food and income are a key risk for women. More specifically the impacts of climate change on women include loss of housing, crop and livestock production loss, livestock death, loss of soil productivity, supply shortage, increased price of inputs, limited access to market, loss of income, savings and employment. Extreme weather and rising seas are increasing the burden of work, ill-health and violence faced by women who are forced to leave home or are left behind as the males in the households seek jobs elsewhere. Since women are the primary caretakers of households and look after children and the elderly, they are often not able to leave vulnerable areas as easily as men. Women already in poverty are increasingly finding themselves in a vicious cycle of low productivity, indebtedness and food insecurity as crops and livestock fail. Also, women are largely left out of decision-making processes in which strategies for coping with climate change are acted upon. With the severity of climate impacts on Bangladesh, climate risk microinsurance can protect individuals, businesses and the country against extreme weather events that are becoming more frequent and more severe. It enables those vulnerable to the impacts of climate change to be compensated from the loss of crops, livestock or other assets and can assist prevent them from falling into vicious cycles of poverty.

Despite the risk mitigating ability of climate risk microinsurance, it is still in its infancy in Bangladesh. A survey of ICs in 2018 found that only 15% of insurers in Bangladesh had good knowledge of climate risk insurance whilst 40% had no knowledge and were completely unaware of such insurance.<sup>48</sup>

## 7. Impacts of COVID-19 in Bangladesh

The COVID-19 pandemic hit the world by surprise, and has taken its toll on individuals, businesses, and the wider economy. Microinsurance clients (i.e. low-income individuals, micro and small businesses etc.) have been hit particularly hard by the global crisis with many experiencing reduced income and revenue, and job losses. Insurers have faced tremendous challenges as they work out how to buffer the future of billions of low-income households and small businesses against this new shock.<sup>49</sup>

**Bangladesh's economy and low-income households did not escape the economic and social shocks from COVID-19.** The country's GDP fell to 3.5% in Fiscal Year (FY) 2020 from 8.2% in FY2019, while unemployment soared to

<sup>44</sup> The World Bank. 2021. Climate Change Action Plan 2021 – 2025, South Asia Road Map.

<sup>45</sup> IBID

<sup>46</sup> Care International. 2020. Evicted by Climate Change: Confronting the Gendered Impacts of Climate-Induced Displacement.

<sup>47</sup> IBID

<sup>48</sup> Center for Participatory Research and Development, 2018. Percentage of Surveyed Insurers with Climate Risk Insurance Knowledge in Bangladesh.

<sup>49</sup> Microinsurance Network. 2021. Responses to COVID-19: the Scope for Hope

22.4% resulting in the loss of 5 million full-time jobs in FY 2021.<sup>50</sup> Key causes were the slowdown in economic activities, reduction in remittances from migrant workers with many forced to return back to Bangladesh with no job prospects, sharp decline in exports, significant loss of jobs and increase in the incidence of poverty.

**The pandemic has caused the proportion of extreme poor in Bangladesh to jump from 9.4% in 2018 to 28.5% in 2020<sup>51</sup> with an estimated 32 million people pushed into poverty.<sup>52</sup>** Rural and urban households who were vulnerable before COVID-19 remain the most affected population group - rural poverty rates have increased from 26.4% in 2018 to 45.3% in 2020<sup>53</sup> severely impacting smallholder farmers who are already at risk to climatic shocks and induced poverty due to their limited savings and access to social protection.<sup>54</sup> Many have switched livelihood strategies, often finding whatever they could for survival, creating a risk of shifting to worse jobs.

**COVID-19 pandemic has shown the vulnerability of the MSMEs in Bangladesh.** More than 96% of MSMEs reported decreases in income, 45% faced liquidity risks, only 7% had either a secondary income source via their families or from crop and livestock activities in their villages and 2% had access to government support.<sup>55,56</sup>

**Many households have had to adopt asset-depleting coping strategies.** Food insecurity was most pronounced among households whose livelihoods depend on livestock production and those living off wage labour<sup>57</sup>, particularly those from Barisal, Dhaka and Sylhet divisions.<sup>58</sup>

**The Bangladeshi government's main direct measure targeting low-income individuals in COVID was the disbursement of cash aid, worth approximately US\$142m.** It targeted 5 million families, each of which received about US\$30. In order to reach unbanked individuals, disbursements were made using MFS. The BB also launched a refinance scheme specifically for low-income professionals, farmers and micro-entrepreneurs. Under this scheme, MFIs accessed funds from the BB for onward lending to their customers. In addition, the government announced direct cash assistance for informal-sector workers, as well as health insurance for medical professionals and bankers.

Key informant interviews and reports on the impacts of COVID-19 on MFIs, provide evidence of the impacts of COVID-19 on microinsurance in Bangladesh:

- **Reductions in new sales and renewals.** With restrictions on IC's agent mobility and MFIs, difficulties interacting with rural based clients and reduced client incomes, resulted in lower enrolments.
- **Increased use of MFS:** Bangladeshis opened close to 300,000 MFS accounts during COVID-19.<sup>59</sup> Women opened more than two-thirds of the accounts helping to close the country's considerable gender gap. Many of the transfers early in the pandemic were also conducted by people with limited digital capability potentially helping to drive up the digital literacy and level of digital comfort of many people, including the poor and marginal. This could assist insurers distribute microinsurance products to these groups.
- **A shift to digital payments:** The digitization of payments during COVID-19 has done more than increase account ownership and facilitate crisis management in Bangladesh. A study found digital payments resulted in 19% more women expressing greater confidence in their ability to tackle unexpected financial shocks.<sup>60</sup>
- **COVID-19 highlighted the need for 'business interruption' microinsurance products.** The crisis has highlighted the vulnerability of micro and small enterprises to events that interrupt their ability to do

<sup>50</sup> Asia Development Bank. 2021. ADB Helps Bangladesh on Road to Recovery from COVID-19.

<sup>51</sup> South Asian Network on Economic Modeling. 2021. Webinar on COVID-19 Fallout on Poverty and Livelihoods in Bangladesh. Results from the Nationwide Survey conducted in November – December 2020.

<sup>52</sup> BRAC. 2021. Bangladesh Multiple Phase Livelihood Survey – Impacts of COVID.

<sup>53</sup> South Asian Network on Economic Modeling. 2021. Webinar on COVID-19 Fallout on Poverty and Livelihoods in Bangladesh. Results from the Nationwide Survey conducted in November – December 2020.

<sup>54</sup> Mercy Corps. 2021. The facts: How climate change affects people living in poverty. Updated April 2021.

<sup>55</sup> Microsave. 2020. Impact of COVID-19 pandemic on micro, small & medium enterprises (MSMEs). Bangladesh Report, September 2020

<sup>56</sup> International Finance Corporation. 2021. Business Pulse Survey: Impact of COVID-19 on MSMEs in Bangladesh

<sup>57</sup> IBID

<sup>58</sup> FAO. 2022. Bangladesh - Shocks, agricultural livelihoods and food security: Monitoring report January 2022.

<sup>59</sup> CGAP. 2021. Bangladesh's COVID-19 Response Is Taking Digital Finance to New Levels

<sup>60</sup> IBID

business, for example, supply chain delays, closure due to lock down etc, presenting an opportunity for insurers to focus on how they can respond to such risks in the future.

## 8. Development Partner Landscape

Development partners have been funding microinsurance projects in Bangladesh for more than a decade with in excess of US\$250 million<sup>61</sup> allocated to pilots, capacity building and research activities across life, health, crop and livestock products. **Annex 8 provides an overview of development partner microinsurance projects from 2012 to 2022.**

Over and above dedicated microinsurance development partner funding, from 2009-2018 Bangladesh has been one of the top 20 recipients of foreign aid globally for climate change mitigation and resilience activities receiving more than US\$1 billion for these purposes.<sup>62</sup>

Key funders of microinsurance projects include: SDC, Oxfam, the WB, IFC, ADB, FCDO, Japanese International Corporation Agencies (JICA), Japanese Fund for Poverty Reduction Development (JFPR), Korean International Cooperation Agency (KOICA), SNV Netherlands Development Organization, INAFI, Center for Financial Inclusion, and International Labour Organization (ILO).

Despite the many development partners, the number of ICs and MFIs who have been key implementing partners in these projects has been limited to **eight** of the 81 life and non-life registered insurers, predominantly those where their Board of Directors have given them the mandate to operate in the microinsurance market. **Five** of the 754 registered MFIs have played a key implementation and development role in microinsurance with many more assisting in the distribution of microinsurance products. **The small numbers of MFIs are a representation of those who are prepared to be compliant and follow the regulation to partner with an insurance company registered with IDRA in order to distribute microinsurance products, beyond loan risk related products.**

PKSF the microcredit wholesale agency in Bangladesh is also a popular partner for development partner projects. Since 2010 it has been implementing development partner projects across health, livestock, and crop sectors partnering with multilateral and bilateral development partners.

Table 1: Key Partner Insurance Companies and MFI's in Development Partner Projects, Bangladesh 2012-2022

Type of Development Partner Microinsurance Projects	Key Partners ICs, MFIs or other
<b>Life</b>	<b>ICs:</b> Chartered Life, Guardian Life, JBC <b>MFIs*:</b> BRAC <b>Other:</b> BIMA Milvik, Microinspire
<b>Health</b>	<b>ICs:</b> Chartered Life, Alpha Islami, Pragati Life, SBC <b>MFI's outside of PKSF:</b> Grameen Bank (through the Grameen Kalyan), Sajida Foundation, BRAC and Society for Social Services <b>MFIs under PKSF:</b> 50 out of 275
<b>Crop</b> (Credit Risk, Weather Index Based Crop Insurance, Flood Index Based, Multi-Peril such as drought, excess rain, heat waves and cold spells)	<b>ICs:</b> GDIC, SBC, BASIX <b>MFI's outside of PKSF:</b> BRAC <b>MFIs under PKSF:</b> Eco Social Development Organization (ESDO), Jagoroni Chakra, GUK-Bogura, Wave Foundation etc.
<b>Livestock</b> (Credit risk)	<b>ICs:</b> GDIC <b>MFIs outside of PKSF*:</b> BRAC, Proshika, Grameen Bank

<sup>61</sup> Microinsurance MSA Study Team's Calculation based on development partner landscape studies for microinsurance, 2022.

<sup>62</sup> LightCastle partners. 2021. Bangladesh Development partner Funding Outlook. Growing Economy & Evolving Development Landscape.

**MFIs under PKSF:** ESDO, Wave Foundation, TMSS, Society Development Committee, Unnayan Prochesta, Community Development Center, DABI Moulik Unnayan Sangstha, Dwip Unnayan Sangstha, Center for Community development Assistance, Shataphool Bangladesh, Nowabanki Gonomukhi Foundation (NGF), National Development Program, Grameen Jano Unnayan Sangstha, JAKAS Foundation, DESHA Shechsashebi Artho-Samajik Unnayan O Manobik Kallyan Sangstha

\* There have been more than 40 MFI's participate in development partner projects however those listed are those that have been key the implementing partners.

There is no doubt that development partner projects have contributed to the emergence of the microinsurance market in Bangladesh ensuring engagement of public and private sectors. However, beyond health and life microinsurance pilots there are very few projects that have achieved the results seen in other projects in emerging economies. Whilst some development partner projects have achieved or exceeded their targets<sup>63</sup> almost none have achieved scale, profitability or resolved the underlying systemic constraints preventing the sector from fulfilling its growth potential.

The design of any new development partner projects would need to take into consideration the key observations and lessons learned (refer to Box 1) to mitigate future pilot project failures.

*Box 1: Key Observations and Lessons Learned from a decade of Microinsurance Development Partner Projects, 2012 - 2022*

- Development partner projects currently offer the major resources for new product development. ICs and MFI's currently have highly profitable captive insurance markets via their existing products and are not incentivized to invest in new product development.
- Microinsurance pilots are driven by development partner priorities not by demand or market-orientated risks, therefore do not often meet the needs of the beneficiaries. Comprehensive demand and risk assessments are not conducted in the design or inception phases. This leads to a lack of product innovation with products developed that are not based on market outcomes.
- Operational costs are the most common area for development partners to fund in a pilot. Some development partners have created market distortions by providing subsidies. For example, Oxfam subsidized 100% of premiums for flood index insurance with 5,000 small holder farmers, and ADB provided 100% subsidies for premiums and pay-outs. This results in ICs leaning on development partner projects to run microinsurance schemes without any interest for running commercially viable schemes. Subsidies also negatively distort the mindset of beneficiaries who think that microinsurance should be a free.
- Few ICs have the knowledge, skills and interest in administering development partner funds, hence the same four to six ICs and MFIs are repeatedly engaged for development partner pilots.
- There is a development partner dependency culture in Bangladesh as any new product development in most non-life microinsurance generally requires subsidies to be financially viable. Development partners are more likely to fund this, compared to the government.
- Development partner projects have not developed any local capacity for product development, instead engaging international service providers. Not only does this result in more expensive product development processes but does not encourage other actors to offer capacity building services or develop their own skills.
- Sustainability of pilots is impacted by development partner funding cycles of two to four years. This can be sufficient for life and health microinsurance pilots where achieving profitability within two to three years is

<sup>63</sup> 'Bangladesh Insurance Sector Development Project' by The World Bank, the 'Developing Inclusive Insurance Sector' project by Asian Development Bank (ADB), 'Microinsurance Mutual Entity (MIME)' by INAFI, 'Weather Index-Based Crop Insurance (WIBCI)' by International Finance Corporation (IFC), '2019 Index based flood insurance (IBFI)' by Oxfam, and 'Climate-Risk Insurance Scheme 2019 - 2020' by Korea International Cooperation Agency.

possible, however for more difficult sectors such as crop and livestock or any index-based product to achieve scale and profitability can take up to ten years.<sup>64</sup> Once the development partner funding cycle has ended ICs and MFI's stop offering the products.

- Most pilots start with difficult products in the challenging sectors resulting in failure. More recently development partner projects have focused on piloting index-based insurance products in agriculture (crop and livestock). This type of microinsurance product in these two sectors (along with fisheries) are renowned internationally for being the two most difficult sectors in emerging economies to achieve profitability and scale.<sup>65</sup> Funding pilots that offer easy entry points for insurance products e.g. fire, injury, in difficult sectors, can assist ICs to build up the necessary soft and hard infrastructure relevant to the sector, and build trust and awareness amongst the beneficiaries using existing systems to pay claims quickly. Once knowledge of a sector has been built then the pilots can expand into more difficult index-based products.
- Despite the millions of dollars spent on development partner projects in the past decade none have been successful in advocating for an improved enabling environment via a well-defined microinsurance regulatory framework, nor resolving the ambiguity between IDRA and MRA. Either projects have not included any advocacy in their design or have failed to understand the incentives and dynamics of key actors. Any future development partner projects should include consistent and persistent policy engagement to effect change. The WB project which ends in August 2024 provides an opportunity to leverage advocacy activities. With US\$30 million allocated for improving the capacity IDRA and the ABIA, most of which is being spent on infrastructure there could be opportunities to complement this project with technical assistance and knowledge exchange.
- There is a gap in the number of development partner pilots that focus on gender-targeted pilots and policy making to reduce the effects of climate and or pandemic-induced shocks on women. Other than the recent attempts of BMMDP to target smallholder women livestock farmers, to date most microinsurance pilots targeting women have focused on MHI.
- At present there are potentially six development partner projects in the pipeline: SDC's BMMDP Phase II potentially starting at the end of its current Phase I (due to finish in 2022); the possibility of further funding from Oxfam in index based microinsurance products; UNDP is currently designing a project 'Insurance and Risk Finance Facility' funded by Swedish International Development Corporation Agency (SIDA); FCDO in collaboration with FID, MOF with support from the UK Space Agency; USAID may support capacity building of IDRA and ICT investments including the development of insurance database with more than USD4 million. and GIZ are exploring climate risk insurance under the damages and loss agenda of UNFCCC COP to commence in 2023/2024. It is possible more could emerge as development partners shift their focus from pandemic related activities towards climate mitigation and resilience, and financial inclusion pillars in Bangladesh.<sup>66</sup>

This Development Partner Landscape analysis has highlighted the urgent need for development partners to:

- Coordinate to leverage the past and future investments in the microinsurance sector increasing value for money of each project
- Improve collaboration on knowledge sharing and development of evidence-based data and insights to improve advocacy and policy dialogue amongst development partners and limit the continuation of failed projects.

<sup>64</sup> Microinsurance Centre at Milliman. 2022. Making Climate Risk Insurance Work. Case Study: Green Delta Insurance Company, Bangladesh. February 2022; and anecdotal evidence from international microinsurance experts, February 2022.

<sup>65</sup> Based on anecdotal evidence from international microinsurance experts experience, February 2022.

<sup>66</sup> LightCastle partners. 2021. Bangladesh Development partner Funding Outlook. Growing Economy & Evolving Development Landscape.

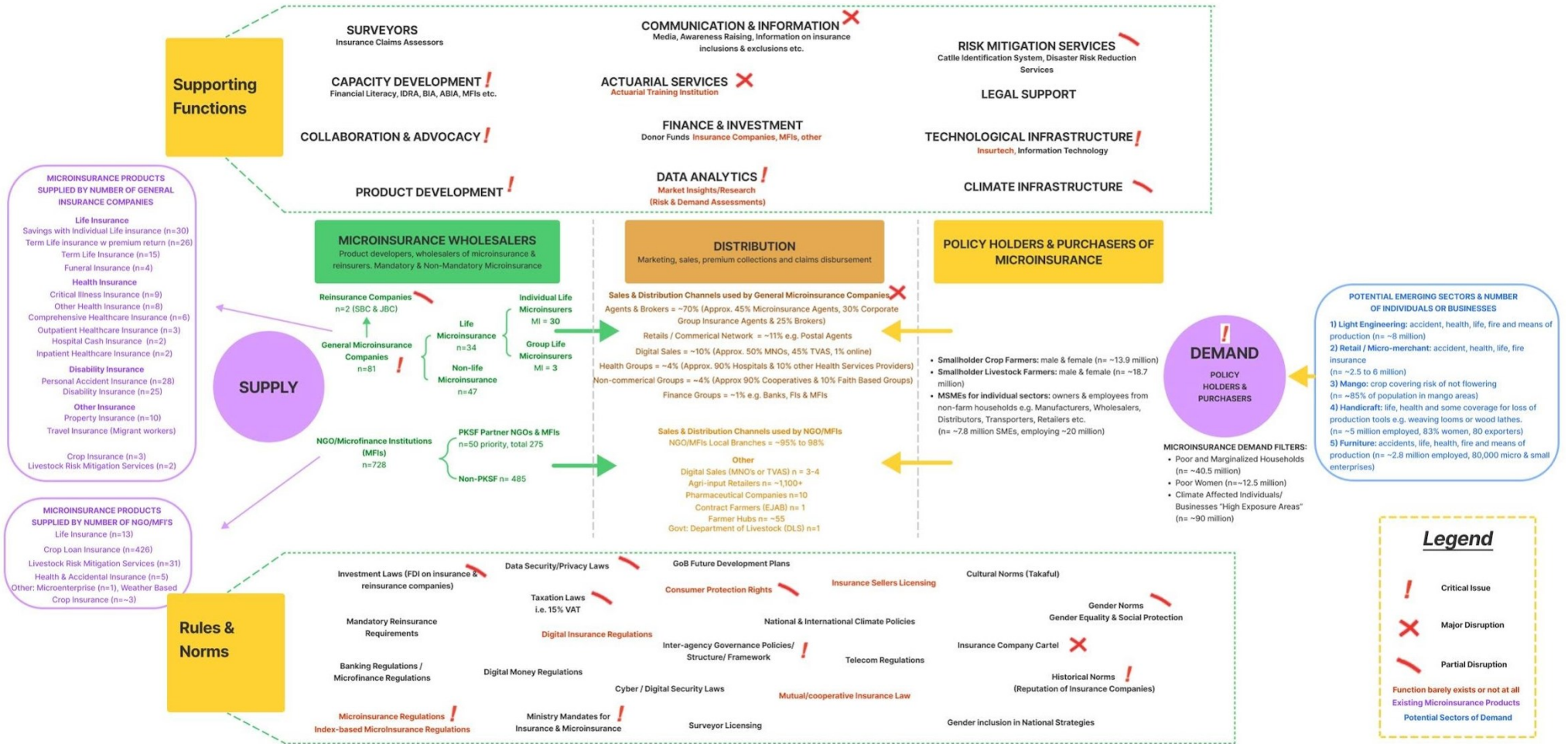
- Improve knowledge management of the microinsurance sector and consolidate a vast library of studies, reports and knowledge tools produced over the last ten years on the microinsurance sector in Bangladesh and the region.
- Stop distorting the microinsurance market with subsidies and allow market forces and well-designed demand led products to lead growth of the sector.

## 9. Bangladesh Microinsurance Market System

Although Bangladesh is one of the most mature countries in microcredit, the microinsurance sector is still in its nascent stage of development. In order to improve its microinsurance penetration and capture the inclusive social and economic benefits experienced in other countries the sector needs to address the systemic constraints anchored in the demand side (Refer Section 10.1), the supply side (Refer Section 10.2), the key supporting functions (Refer Section 10.3) and in the Rules and Norms (Refer to Section 10.4).

The core market of supply and demand is made up of ICs, MFI's, and different types of distributors that all contribute to the delivery of microinsurance products and related services to low income and marginal target customers. There is a range of different market actors who each play a role in providing essential supporting functions into the core market, some more effectively than others. All microinsurance actors are influenced by a set of formal and informal rules and norms which frame the environment in which the sector operates. Figure 3 provides an overview of the microinsurance market system in Bangladesh.

Figure 3: Bangladesh Microinsurance Market System Map



Date Sources: Credit & Development Forum (CDF). 2021. Microfinance Institution Annual Reports from FY 2017-2017, 2018-2019, and 2019-2020; Milliman. 2020. Microinsurance in Asia: Supply-side Perspectives. Bangladesh Country Analysis, April 2020; UN Women Data, 2021; Bangladesh Telecommunication Regulatory Commission (BTRC), 2021; Microcredit Regulatory Authority (MRA), 2021; USAID. 2018. Fragility and Climate Risks in Bangladesh; UNDP. 2021. Multidimensional Poverty Index 2020; Trading Economics, 2022; and Key Informant Interviews conducted by the BMMDP MSA Study Team December 2021 to February 2022.

## 9.1. Demand Analysis

### 9.1.1. Current Demand – Bangladesh Microinsurance

**Current market demand for microinsurance remains low.** Published data for the percentage of farm and non-farm enterprises that currently have microinsurance in Bangladesh is not available. However, figures from the general insurance sector provide an indication of low levels of demand. General insurance penetration in Bangladesh is extremely low at 0.40% of GDP underpinned by one of the lowest non-life insurance penetration ratios of 0.10% in the Asia Pacific region.<sup>67</sup> Approximately 11.5 million individuals have one or more insurance policies in Bangladesh, leaving an estimated 93% of the country's 166 million population without access to formal insurance products and services.<sup>68,69</sup>

Another indication of low demand is to look at the microinsurance penetration rate in the Asia Pacific region which in 2012 was 0.01% compared to general insurance penetration of 5.7%.<sup>70</sup> In the absence of reliable data Asia's low microinsurance penetration rate can also be used as a proxy for Bangladesh.

**A large portion of current demand is based on mandatory microinsurance products such as credit shield, also known as risk mitigation funds.** Approximately 34.6 million MFI risk mitigation service policy holders (includes smallholder farmers and MSMEs) in Bangladesh are currently covered under credit shield. This is a mandatory form of insurance and does not cover those that do not have active credit with MFIs. The BMMDP pilots have specifically targeted 400,000 livestock smallholder farmers with a mandatory credit risk microinsurance product that is bundled with livestock extension services. To date more than 225,000 livestock farmers have purchased this livestock risk mitigation scheme.

**A very small portion of current demand is from crop microinsurance targeting smallholder farmers.** BMMDP pilots have facilitated crop microinsurance for 177,312 smallholder crop farmers representing penetration rate of approximately 0.001% of the smallholder crop farmer population of 13.9 million in Bangladesh.<sup>71</sup>

### 9.1.2. Determinants of Demand

Low demand for microinsurance is a complex problem, with many factors determining whether or not an individual buys insurance.<sup>72</sup> Microinsurance products will only deliver value to low-income households if they are appropriate, accessible, affordable, responsive and simple. Understanding the needs, risk coping strategies, preferences and capacities of specific target segments is key. Factors impacting demand are outlined in Figure 4. Any or all of these may prevent even those who want to buy microinsurance from doing so.

<sup>67</sup> Swiss Re Institute. 2020. World insurance: riding out the 2020 pandemic storm. Sigma No.4/2020. Insurance penetration as a contribution to GDP fell from 0.48% in 2019 to 0.4% in 2020.

<sup>68</sup> Swiss Re Institute. 2021. Sigma Report. World insurance: the recovery gains pace. No 3/2021.

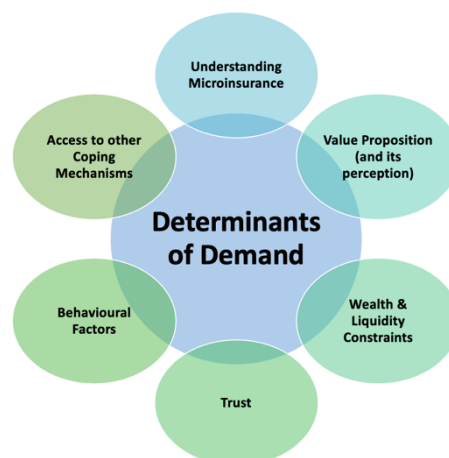
<sup>69</sup> Khan, R. 2020. Climate Risk and Microinsurance. The Case in Bangladesh; and Climate Risk Insurance gets a Major Boost in Bangladesh. News Article June 2020.

<sup>70</sup> Access to Insurance Initiative (A2ii). 2017. Measuring Insurance development: Beyond the insurance penetration rate.

<sup>71</sup> Coverage from Component 2 of BMMDP, March 2022

<sup>72</sup> ILO. 2013. Why People Do Not Buy Microinsurance and What Can We Do About It. Microinsurance Paper No. 11. February 2013

Figure 4: Six Determinants of Demand for Microinsurance



Source: Adapted from ILO. 2013.

Of the six determinants of demand (Refer to Figure 4), research across multiple countries has shown that the most important are: **trust, liquidity constraints, the quality of the client value proposition and behavioural constraints.**<sup>73</sup> Mitigating challenges relating to these determinants has the strongest impact on take-up of microinsurance.

*Beneficiary's level of trust* goes beyond the reputation of the insurance company. In Bangladesh to assist overcome the distrust of insurance companies, having a trusted distribution network is absolutely key. Furthermore ensuring that the beneficiaries also trust the microinsurance product i.e. that it covers their priority risk needs, is important for stimulating demand.

*Liquidity constraints* are a priority determinant of demand, but not because smallholder farmers or MSMEs have no money; rather, they have insufficient funds at the time of enrolment to pay the premium thus reducing demand for microinsurance products. Smallholder farmers and MSMEs in Bangladesh do face liquidity issues. Currently most microinsurance products do not address this liquidity issue like credit does. For example, farmers usually get their agri inputs on credit from the input suppliers to address their liquidity issues, or they sell their crops in advance and take loans from traders to buy inputs. Mitigating liquidity constraints by scheduling premium payments when money is most readily available, for instance after a harvest is important. For example, in China credit vouchers allowed pig farmers to take up microinsurance while delaying the premium payment until the end of the insured period, coinciding with when pigs are sold and liquidity constraints are relieved. This increased the purchase of the insurance by 11% compared to 5% for those farmers not receiving vouchers.

*Client value proposition:* The evidence (though limited) shows that client value and demand are interlinked and products that deliver (or are perceived to deliver) higher client value are likely to produce greater returns for the insurer in the long term.<sup>74</sup> In Bangladesh currently most products are supply driven and/or do not meet the priority risk needs of the beneficiaries. Developing microinsurance products with attractive value propositions will play an essential role in stimulating the current low levels of demand.

*Behavioural constraints* influence peoples decision and actions. Insurers in Bangladesh should not only invest in understanding the risk needs of beneficiaries but gathering behavioural insights from which strategic marketing activities can be developed is key. For example, research has shown that word of mouth and the experiences of

<sup>73</sup> ILO. 2013. Why People Do Not Buy Microinsurance and What Can We Do About It. Microinsurance Paper No. 11. February 2013

<sup>74</sup> ILO. 2012. Coming together on client value. Microinsurance Innovation Facility. Geneva, ILO; Magnoni, B. and Zimmerman, E. 2011. Do clients get value from microinsurance? A systematic review of recent and current research. Microinsurance Centre; and McCord et al. 2012. Milk brief #7: A microinsurance puzzle: How do demand factors link to client value? MILK.

peers can be more powerful in stimulating demand than the direct experience of a shock.<sup>75</sup> Evidence shows that when peers spread information about insurance, they increase the likelihood that insurance is purchased.<sup>76</sup>

Refer to Annex 2 for an overview of insights on smallholder crop and livestock farmers.

#### **Critical success factors in increasing demand of Microinsurance with Smallholder Crop Farmers:**

- Microinsurance products that meet the risk needs of smallholder farmers and provide them with higher value propositions
- Tailor communication on what the difference is between microinsurance and microcredit
- Clear communication from the distributor to ensure a genuine understanding from the farmer of what is and isn't included in crop microinsurance policy. Emphasis on communicating the 'value proposition' to the farmer is key including evidence of its policy benefits via testimonials from local farmers
- Consistent awareness raising activities using road shows, videos, TV advertorials via local cable TV operators as well as training from trusted sources such as DAE, NGOs etc.
- Trust in the distributor of microinsurance
- First-hand experience and evidence from other farmers in their region of rapid claims pay-out e.g., one month or less
- Digital transfer of claims payments
- Provision of up to date, real-time weather-related information e.g. OBD
- Training on how the use of technology can assist in forecasting weather and improve crop productivity

#### **Critical success factors in increasing demand of Risk Mitigation Services with Smallholder Livestock Farmers:**

- Risk mitigation services that have an attractive value proposition. i.e. those that cover accidental death and injury from stray and wild animals, milk production loss, pregnant cows miscarriage i.e., loss of unborn calves, and the cost of medication are most needed.
- A trusted distribution network. MFIs are the most trusted and used financial service provider for livestock farmers reinforcing that MFIs are critical in the distribution of microinsurance products.
- Financial literacy training to support both men and women in understanding the benefits of microinsurance is key
- Investment in delivering information on the terms and conditions of Livestock Risk Mitigation Services.
- Comprehensive understanding of the motivational factors influencing purchase decisions. For example,

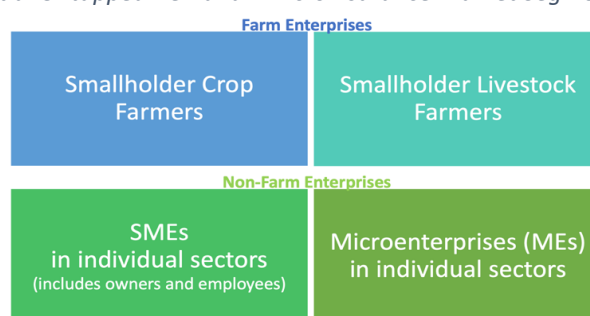
### 9.1.3. Future Market Potential - Bangladesh Microinsurance

This section outlines where there is potential for future growth in the microinsurance market in Bangladesh. Figure 5 details four market segments. The first, farm enterprises i.e. smallholder crop and livestock farmers represent current and potential demand. The second non-farm enterprises i.e. SMEs and Microenterprises (MEs) in individual sectors represent future growth potential. The case for these market segments showing future market potential is presented below.

<sup>75</sup> IBID

<sup>76</sup> ILO. 2013. Why People Do Not Buy Microinsurance and What Can We Do About It. Microinsurance Paper No. 11. February 2013

Figure 5: Potential Untapped Demand - Microinsurance Market Segments, Bangladesh



**There are large numbers of smallholder farmers and Micro, Small and Medium enterprises (MSMEs) in Bangladesh representing significant market opportunities for microinsurance.**

- 13.9 million smallholder crop farmers (farm size 0.05-2.49 acres)<sup>77</sup>
- 18.7 million smallholder cattle owners (1.52 cows per household)<sup>78</sup>
- 0.6 million smallholder pond fish farmers (extensive and semi-intensive)<sup>79</sup>
- **7.8 million MSMEs (including cottage industries) employing more than 20 million and accounting for 99% of non-farm enterprises.<sup>80,81, 82, 83</sup> Approximately 7.8% of SMEs are owned by women.<sup>84</sup>**

In FY2019-2020 the gross area of cropped land in Bangladesh was 39.678 million acres. If 5%<sup>85</sup> of these lands (1,309 million decimals) were brought under microinsurance, the crop microinsurance market size will stand at US\$547 million.

**Microinsurance can boost their economic performance and build resilience by stimulating risk appetite and the shock absorption capacity of enterprises.** Global evidence suggests that microinsurance can increase smallholder farmers and MSMEs business investment and incentivize them to make riskier but more profitable business decisions.<sup>86,87</sup> Furthermore, research on the social and economic benefits of microinsurance among the poor households show that those households insured are 50% less likely to sell off livestock to cope with severe drought, 36% less likely to forego food as a coping strategy and 50% are less dependent on food aid and external support.<sup>88</sup> Microinsurance also protects households against the liquidation of productive assets and reduction of

<sup>77</sup> Extrapolation of data from Bangladesh Agricultural Census Data, 2019; Yearbook of Fisheries Statistics of Bangladesh 2018-2019; Bangladesh Bureau of Statistics, Economic Census, 2013.

<sup>78</sup> Extrapolation of data from Bangladesh Agricultural Census Data, 2019.

<sup>79</sup> Extrapolation of data from Yearbook of Fisheries Statistics of Bangladesh 2018-2019.

<sup>80</sup> The smallholder farmer number of 30 million is not a unique number as some farmers are both livestock and crop farmers. Extrapolation of data from Bangladesh Agricultural Census Data, 2019; Yearbook of Fisheries Statistics of Bangladesh 2018-2019; Bangladesh Bureau of Statistics, Economic Census, 2013; Extrapolation of data from Bangladesh Agricultural Census Data, 2019; and The World Bank. 2019. Financing Solutions for Micro, Small and Medium Enterprises in Bangladesh

<sup>81</sup> Total workforce was 67,225,702 in 2020. Source: Trading Economics and the World Bank, 2022.

<sup>82</sup> Ministry of Industries. 2019. SME Policy.

<sup>83</sup> World Bank. 2021.

<sup>84</sup> <https://www.microentrepreneursasia.com/women-micro-merchants-in-mangladesh>

<sup>85</sup> Average general insurance penetration across Asia used as a maximum percentage benchmark to assess total market value.

<sup>86</sup> Microinsurance Centre. 2011. Does microinsurance provide value to their clients and families?

<sup>87</sup> GIZ. 2019. Insurance for Micro, Small and Medium Enterprise Development. Inclusive Insurance Fact Sheet Series.

<sup>88</sup> International Labour Organization. 2013. The impact of microinsurance on asset accumulation and human capital investments: Evidence from a drought in Kenya. ILO Microinsurance Innovation Facility Research Paper No. 31, Geneva.

meals mitigating behaviours.<sup>89</sup> It also improves client's loan repayment rates and has a direct impact on physical and human capital expenditures.<sup>90,91</sup>

Table 2: Numbers and Groups of Vulnerable Individuals & Enterprises in Bangladesh

Group	Number of Beneficiaries
Poor and marginalized households	~40.5 million
Women living below international poverty line	~12.3 million
Climate affected individuals and enterprises in "High Exposure Areas"	~90 million

Sources: UN Women Data, 2021; USAID. 2018. Fragility and Climate Risks in Bangladesh; and UNDP. 2021. Multidimensional Poverty Index 2020.

For an overview of the current demand needs and behaviours of MSMEs refer to Annex 3.

Section 15 of this MMSA identifies four sub-sectors of the microinsurance market that demonstrate potential for investment by SDC in a possible Phase II. These include LE, furniture, mango and retail (includes retail micro-merchants). In each of these sub-sectors there are thriving and vibrant SMEs and MEs.

**The following microinsurance needs have been identified for SMEs**, and if provided could not only act as excellent risk mitigation but also increase the confidence of business owners to invest more. Further in-depth risk and needs assessments are needed to understand behaviour and action towards risk mitigations strategies for SMEs.

- **Life insurance** as the death of the worker puts the whole family at risk.
- **Accident insurance** as it is common for minor and major accidents to occur during operations, and it could have a life-long impact on the worker or business owner.
- **Flood and fire insurance** which destroy valuable inventory as well as other productivity assets such as machines, equipment, transport, property etc.
- **Group insurance** for larger small and medium enterprises with multiple types of insurance bundled together targeting employees e.g., life, accident, health and pension can act as an all-in-one solution for workers.
- **Theft insurance**
- **Business liability insurance** and **business interruption insurance**
- **Damage or loss of machinery or tools**

Microenterprise potential microinsurance needs:

- **Life, accident and health** of owner and family members
- **Multi-risk coverage** in one policy for business assets: stock and premises

The analysis of demand has identified that whilst current demand is low there are opportunities to unlock demand from significant numbers of smallholder farmers and MSMEs who currently face shocks from climate and other economic impacts.

- Conduct comprehensive risk and need assessments of key market segments.
- Develop microinsurance products that meet the needs of the beneficiaries rather than supply driven products influenced by development partner interests.
- There are more than 15 priority risks of farm and non-farm enterprises that are currently not covered by microinsurance products

<sup>89</sup> IBID

<sup>90</sup> Mosley, P. 2009. Assessing the success of micro insurance programmes in meeting the insurance needs of the poor. United Nations Department of Economic and Social Affairs (DESA) Working Paper No. 84.

<sup>91</sup> GIZ. 2019. Insurance for Micro, Small and Medium Enterprise Development. Inclusive Insurance Fact Sheet Series.

- Five microinsurance subsectors have opportunities (Section 15) for the development of demand-driven microinsurance schemes for smallholder farmers and MSMEs. These include LE, furniture, mango, retail and handicrafts.

## 9.2. Supply Analysis

The supply side of the microinsurance system in Bangladesh can be split into three parts: reinsurers, wholesalers of microinsurance products and distributors of microinsurance products.

### 9.2.1. Reinsurance

Reinsurance is insurance that an insurance company purchases from another insurance company to insulate itself from the risk of a major claims event. With reinsurance, the company passes on some part of its own insurance liabilities to the other insurance company.

IDRA is mandated to regulate reinsurers of which there are two registered in Bangladesh, both are state-owned: **SBC** for non-life insurance and **JBC** for life insurance.

The Insurance Corporations Act 2019, states that every insurer registered in Bangladesh will reinsure a portion of their reinsurance in addition to its own holding capacity under generally prevailing and acceptable terms.

For non-life insurance, 50% of the reinsurance portion must be completed with SBC. The balance can be done with SBC or any reinsurance company located in Bangladesh or internationally. For life insurance, there is an obligation to reinsure a part beyond a company's holding capacity – but there is currently no obligation for reinsuring with JBC. The Insurance Corporations Act states that the government may impose an obligation of reinsuring with JBC however to date this has not been enforced.<sup>92</sup> In December 2021 JBC commenced placing pressure on the MOF to enforce this obligation, strongly driven by its financial struggles to pay rising death claims during COVID-19 pandemic.

Both JBC and SBC operate well below their capacity primarily due to lack of technical capacity of management as well as staff, limited use of IT, and inefficient business practices.

Whilst there are no international reinsurers registered in Bangladesh there are many from all over the world contracted by local ICs for their services. Unlike for ICs, the 2019 Insurance Act does not provide any guidance on the minimum paid up capital required for a new reinsurance company to set up in Bangladesh. Whilst this may be an attractive incentive for any company to launch in Bangladesh there are several factors preventing their investment: small insurance penetration rate and even smaller for microinsurance, the requirement for ICs to use SBC for 50% of their reinsurance purposes and the lack of product innovation. The cost of purchasing reinsurance from international companies outside of Bangladesh acts as a disincentive for product innovation in microinsurance.

The World Bank Bangladesh Insurance Sector Development Project (2017-2024) has been supporting the strengthening of the reinsurance activities of SBC.

### 9.2.2. Microinsurance Wholesalers

Microinsurance wholesalers develop microinsurance products selling through their own and other distribution channels. There are two distinct wholesalers of microinsurance in Bangladesh: MFIs and ICs.

#### MFI Led Risk Mitigation Services

There are two categories of MFIs in the microinsurance sector:

- **PKSF Partner Organizations (POs)** such as ESDO, Jagoroni Chakra, Wave Foundation etc; and
- **Non-PKSF MFIs and NGOs** such as BRAC, Grameen Bank, Sajida Foundation etc.

<sup>92</sup><https://www.asiainsurancereview.com/News/View-NewsLetter-Article/id/78856/type/eDaily/Bangladesh-State-owned-life-insurer-wants-privately-owned-insurers-to-reinsure-with-it>

Both categories are regulated under MRA.

MFIs refer to their insurance schemes as 'Client Welfare Funds'. MRA does not consider 'Client Welfare Funds' as a formal insurance product and hence these do not come under the insurance regulator IDRA.

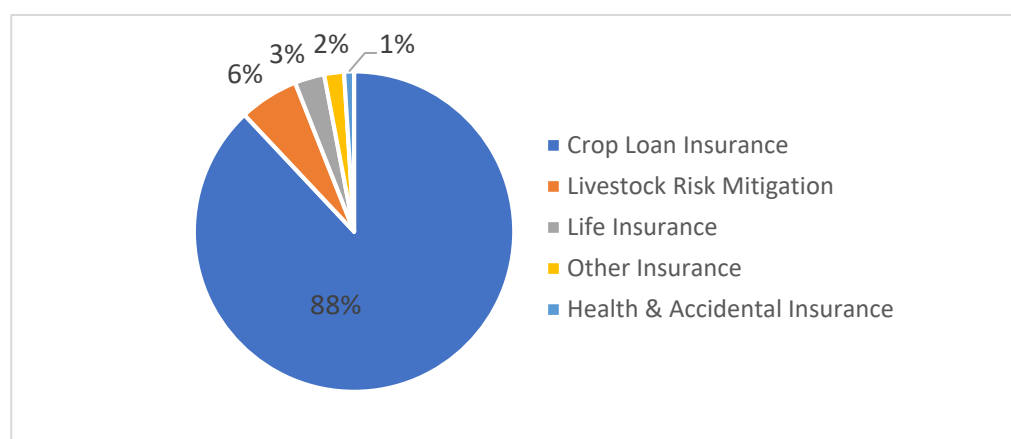
MFIs offer six main risk mitigation products, all of which are very short-term in nature (maximum one year): crop loan insurance, livestock risk mitigation services, MHI, accidental insurance, life insurance, and others such as multi-peril crop insurance, WIBCI, microenterprise insurance etc. MFIs are the largest providers of crop and livestock loan insurance.

Large MFIs predominantly provide crop loan/credit insurance with a small focus on MHI and livestock risk mitigation services. Refer to Figure 6 below. Crop loan/credit insurance helps decrease the risk for both the farmer and MFI, and thus increases access to credit. However, for a farmer facing low yields, partial forgiveness of a loan is not enough to address the loss of food and income for the season.

Smaller MFIs do not generally provide MHI, life insurance or WIBCI products as these require resources and expertise. Deploying MHI products is capital-intensive in the provision of service levels, and requires high premiums, which large MFIs are able to subsidize to make cost effective for low-income households, whereas smaller MFIs are not willing or able to.

MHI also requires doctors and hospitals to partner with which may be difficult for small MFIs to sustain. WIBCI is not dissimilar in that the premiums are often higher and a lot of expertise is required to develop these schemes.

Figure 6: Risk Mitigation Services Offered by the Percentage of MFIs, Bangladesh, 2020



Source: Credit & Development Forum (CDF). 2021. Microfinance Institution Annual Reports from FY2019-2020.

Table 3 provides an overview of the MFI led risk mitigation services in Bangladesh. For all of these microinsurance types MFIs collect a nominal fee 'premium' from customers which contributes to the MFI's Client Welfare Fund.

A major aspect of insurance is the guarantee by a reinsurer in the event that any covariant/catastrophic risk affects a large number of people to make insurance claims. While ICs have reinsurers, MFIs are not reinsured by any entity. In the absence of partnering with an insurance company who has a reinsurer, the decision of an MFI to enter into a high-risk area with a microinsurance product is limited by this.

Annex 5 provide more insights on MFIs in Bangladesh.

Table 3: Overview of the MFI led Risk Mitigation Services, Bangladesh, FY 2019 – 2020

MFIs in the microinsurance sector	
<b>Total MFIs supplying microinsurance = 450</b>	<b>Insurance Coverage:</b> 34,668,680 persons Growth of 31.67% from FY18-19 to FY19-20
<b>Category of Insurance Offered by No. of MFI's*</b>	
Crop Loan: 426 (94.7%) Livestock: 31 (6.9%) Life: 13 (2.9%) Health & Accidental: 5 (1.1%) *Does not add up to 100% as MFIs can offer multiple products at any one time.	
<b>No. of Beneficiaries Receiving Claims:</b> 3,364,422 Decline of -88.35% from FY18-19 to FY19-20	<b>MFI Premium Income:</b> US\$136.5 million (BDT 11,750 million) Decline of -8.71% from FY18-19 to FY19-20
<b>Balance of MFI Client Welfare Fund:</b> US\$442 million (BDT 38,022 million) Growth of 4.29% from FY18-19 to FY19-20	<b>Number of unsettled claims:</b> 99.9% reduction from FY13-14 (578,772) to FY16-17 (794)
<b>Average claim settlement time: 3 weeks</b>	
<b>Largest MFIs Operating in Microinsurance Market</b> BRAC, GSK, Proshikha, Sajida Foundation, and Grameen Kalyan.	

Sources: Credit & Development Forum (CDF). 2021. Microfinance Institution Annual Reports from FY 2017-2017, 2018-2019, and 2019-2020; Key Informant Interviews conducted by the BMMDP MMSA Study Team December 2021 to February 2022.

Note: Currency conversion rate used: US\$1=BDT 86.10

### Insurance Companies

Both life and non-life ICs in Bangladesh consider microinsurance to be somewhat important to the development of the insurance market.<sup>93</sup> There are 35 life ICs and 47 non-life ICs licensed under IDRA. The regulation in Bangladesh is similar to many other countries in that it does not allow composite life and non-life insurance products to be offered by one type of company.

Most of the commercial insurers are keen to operate in the “life” market, which is likely to generate profit in the short term. Several life ICs have been successful in exploiting the low-income market to generate growth for their business.

On average microinsurance premiums account for 10% to 15% of their total in-force premiums with most of these being for life microinsurance products.<sup>94</sup> Despite the volume of microinsurance premiums the **penetration of microinsurance amongst the low-income and middle-income population remains extremely low, at 0.9%.**<sup>95</sup> Those insurers who currently do not offer microinsurance cite that low-income households are not their target market, and the regulatory environment is unfavourable. Key informant interviews suggest the former being the key reason with most insurers already making sufficient revenue from existing higher income groups in urban

<sup>93</sup> Milliman. 2020. Asia Microinsurance Supply Side. Accessed via: <http://www.microinsurancecentre.org/resources/documents/asia-microinsurance-supply-side-study.html>

<sup>94</sup> IBID

<sup>95</sup> 0.9%\* is calculated as 0.9 million policyholders covered / 100.0 million classified as low-income or middle-income (as at Q1 2020). Sources of the numbers are from IDRA (where number of policyholders was available while number of lives was not captured in the current database) and an estimate of 10% of life insurance coverage was assumed to be microinsurance (an estimate made between 10 – 30% was made based on regulatory expertise in Bangladesh and 10% was applied to take a conservative approach and not overstate figures). See <https://www.pewresearch.org/global/interactives/global-population-by-income/>.

areas. Furthermore, many ICs are owned by individuals motivated by their own ‘captive insurance audience’ i.e., the individuals and companies within their business owner’s conglomerate.

Most microinsurance products by ICs have been developed and launched to market with significant support from development partners. Once funding stops, projects cease to continue. This indicates that ICs are generally not interested in investing in the microinsurance sector as they are already generating significant profits via large premium volumes and growth from the general insurance market. Despite significant capacity gaps, they are also reluctant to enter the market due to: i) perceived difficulty in reaching low-income households in rural areas; ii) lack of distribution channels in rural areas; iii) low awareness levels of potential beneficiaries; iv) the high cost of service delivery with a comparatively lower return for their investment; v) the lack of comprehensive data for risk assessments; vi) they are not trusted amongst the low-income segments; and vii) they do not believe microinsurance is profitable.

The lack of trust is a consequence of numerous cases of unsettled claims, corruption, and embezzlement predominantly among life ICs which has had a spill over effect on the overall credibility and trust of all insurers, both life and non-life, and of insurance in general.

ICs face similar regulatory issues as MFIs, as there is a lack of guidelines for product development and distribution of microinsurance products by IDRA. All new non-life insurance products developed by ICs must be approved by IDRA, which can take from six to twelve months. Also, any partnerships with MFIs must also be approved by IDRA further acting as a deterrent.

Figure 7: Types of Microinsurance Products offered by Insurance Companies, Bangladesh

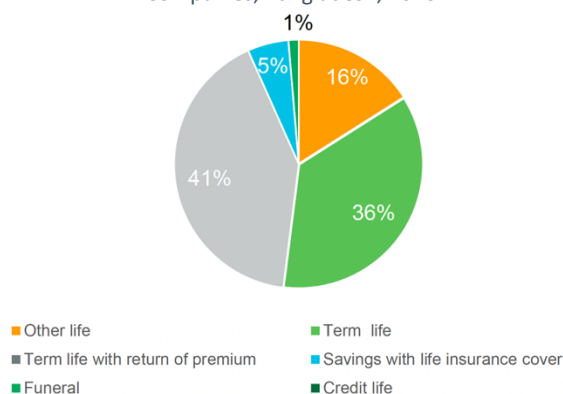


Source: Milliman. 2020. Microinsurance in Asia: Supply-side perspectives. Bangladesh Country Analysis, April 2020.

**a) Life Insurance Companies**

Of the 35 life ICs, the top two by premium value, offering microinsurance products are Guardian Life and Pragati Life. By law they are only able to offer ‘life’ related microinsurance products. The most popular of these products in Bangladesh is ‘term life’ offered with a savings component. When bundled with other financial instruments, perceived value of the insurance package increases, making sales more straightforward. Similarly, term life with return of premium, i.e., endowment, is also popular. Whilst this is a more complicated product to administer, the return of premium offers a disciplined manner for saving money for future financial needs and certainty of payment for policyholders.

Figure 8: Existing types of Life Microinsurance Offered by Insurance Companies, Bangladesh, 2020



Source: Milliman. 2020. Microinsurance in Asia: Supply-side Perspectives. Bangladesh Country Analysis, April 2020.

- b) **Non-Life Insurance:** Of the 47 privately owned non-life ICs in Bangladesh the top four ranked by premium volume are GDIC, SBC, Pioneer, and Reliance. GDIC is the market leader with 11.05% market share developing almost all categories of non-life products.<sup>96</sup> The gross premium income in 2017 for non-life insurers grew by 5.4% to stand at US\$346 million (BDT 2,981 crore), which was 27.4% of the total premium income for the insurance industry. The number of policies in this sector amounts to 2,418,630.<sup>97</sup>

Like other countries, personal accident and disability microinsurance products hold a strong position in the market due to their low premium level. Other non-life products offered include health, property, crop and livestock. Refer to Figure 7.

Whilst MFIs are the largest providers of crop insurance, non-life ICs have been providing it since the late 1970's, however many these products have not been able to reach sustainability. Refer to Section 4 on the History of Microinsurance and Section 9 for Lessons Learned on Development Partner Projects.

The small number of non-life ICs providing crop insurance is due to the higher level of investment, expertise, partnerships needed for product development, distribution and claims assessment. Most insurers are not prepared to make this investment, hence either rely on development partner funding or do not develop this type of insurance.

Livestock is an equally invested sector by non-life insurers with both SBC and GDIC launching similar livestock risk mitigation services schemes for cattle farmers in the late 1980's and 2019 respectively.<sup>98</sup>

Microinsurance products developed by non-life ICs to address climate risks are still in their infancy. A recent survey of 33 insurers found that only GDIC offered microinsurance coverage targeting climate risks<sup>99</sup> with 40% of ICs completely unaware of what climate risk insurance is.<sup>100</sup>

<sup>96</sup> Swisscontact. 2022. Diagnostic study on crop insurance regulatory framework and practice in Bangladesh. Final Report.

<sup>97</sup> IDRA. 2019

<sup>98</sup> Mehedi, H. 2019. BRAC Bank-Green Delta Insurance launch livestock insurance. Dhaka Tribune. 14 August 2019.

<sup>99</sup> Milliman. 2020. Asia Microinsurance Supply Side – Asia Perspective.

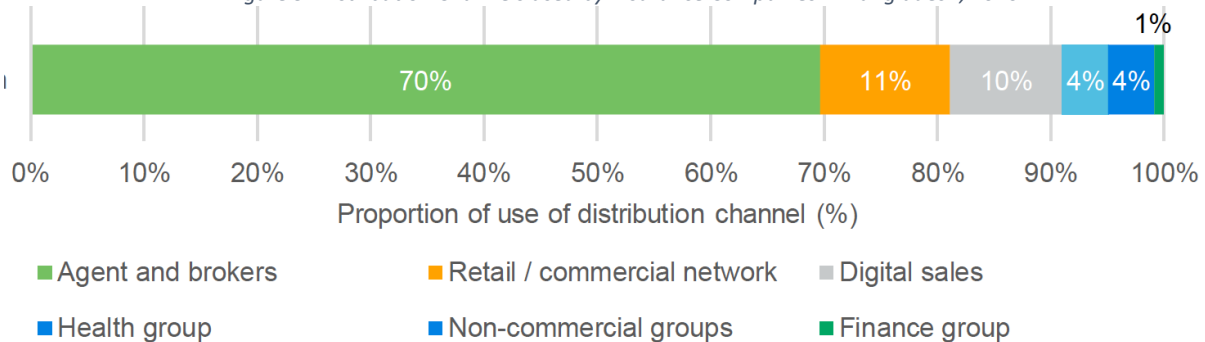
<sup>100</sup>Center for Participatory Research and Development. 2018. Percentage of Surveyed Insurers with Climate Risk Insurance Knowledge in Bangladesh.

The analysis on wholesalers of microinsurance has shown that whilst most ICs currently lack any incentive to expand into the microinsurance, the market leading microinsurance companies do have a vested interest in expanding their product offering and/or coverage. Any future partnerships with the market leading microinsurance companies will require a new approach with different incentives to ensure sustainability of activities and improved regulatory enforcement. MFIs in Bangladesh have an unparalleled position to expand and significantly grow the microinsurance market. They offer an existing, efficient and trusted distribution network that if leveraged could assist unlock demand. Incentivizing both ICs and MFI's to work together will be key. Evidence based data to assist improve incentives, policy dialogue and advocacy will play an important role for the future growth in the supply of microinsurance schemes.

9.2.3. Distributors of Microinsurance

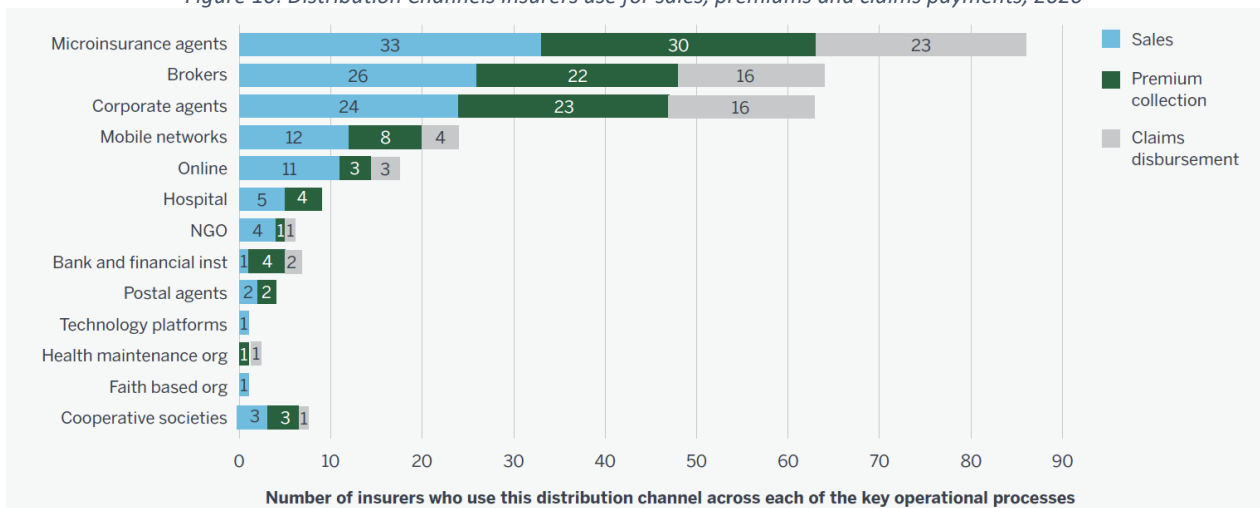
**Insurance Company Agents:** In Bangladesh, 70% of microinsurance products distributed by ICs (not MFIs) are via agents and brokers while only 11% use retailers and commercial networks and 10% digital online sales. Agents and brokers are largely concentrated in urban areas and tend to be more expensive compared to other distribution channels typically adopted in the microinsurance sector. This could be overcome if ICs were willing to partner with MFIs to leverage their existing customer bases in rural and difficult to reach areas.

Figure 9: Distribution Channels used by Insurance Companies in Bangladesh, 2020



Source: Milliman. 2020. Microinsurance in Asia: Supply-side Perspectives. Bangladesh Country Analysis, April 2020.  
\* Excludes MFIs

Figure 10: Distribution Channels Insurers use for sales, premiums and claims payments, 2020



Source: Milliman. 2020. Microinsurance in Asia: Supply-side Perspectives. Bangladesh Country Analysis, April 2020.

**MFIs** existing and extensive networks of low-income households makes them an ideal distribution channel for microinsurance products. Currently any risk mitigation services developed by MFIs are primarily distributed through their retail networks across Bangladesh. This enables them to have face to face contact with existing customers addressing both their insurance and micro credit needs.

MFIs can partner with ICs to distribute microinsurance products with prior approval from IDRA – this can take time. Whilst attempts have been made to leverage partnerships, commission structures from ICs did not make it financially attractive for the MFIs. Insurers are also reluctant to use MFIs as distribution partners as they see them as a competitive threat. As such the microinsurance sector is prevented from reaching its full potential.

**Mobile Network Operators (MNOs):** Mobile penetration in Bangladesh is 82%<sup>101</sup> offering a cost-effective channel for distribution of insurance products. There are four MNO's (Grameenphone, Banglalink, Robi Axiata and Teletalk) regulated by BTRC and servicing 165.6 million users.<sup>102</sup> Grameen Phone has majority market share of 46% followed by Robi Axiata with 29.5% with both of these MNOs being the most active in the microinsurance sector. These two MNOs have entered partnerships with ICs and TVAS providers for life and MHI products adopting the “freemium” models, where premiums are paid for by the MNO to promote loyalty. Whilst such MNO models continue to exist, their sustainability is questionable given low renewal rates.<sup>103</sup> It is debatable whether offering “free” insurance is necessary in driving sales of paid products.

A challenge seen in Bangladesh (and internationally) using MNOs is that most beneficiaries are not aware they have the coverage, despite manually registering for the scheme. Anecdotal evidence from international microinsurance experts has support this with claim rates of 30% to 40%. MicroEnsure and Bima have tried to address this issue, but the claims rate they are getting still shows they are missing many.

Details of other microinsurance initiatives by MNOs can be found in Annex 5.

**Telecommunication Value Added Service (TVAS).** In the microinsurance sector TVAS operators partner with MNOs and ICs to offer microinsurance as well as provide services like news alerts, health information, telemedicine services, weather data, and pricing information. They can also act as intermediaries handling premium collection, payments and client servicing, product development, and claims administration.

In Bangladesh there are 182 TVAS operators generating revenue of Tk 2 billion per annum<sup>104</sup> across multiple sectors however for microinsurance three are most active - Milvik BIMA, Microinspire and Supernova Techno. These TVAS providers are partnering with MNOs, mobile money providers e.g., Bkash, OK Wallet and Rocket, and insurers to offer affordable insurance and other value-added services such as health screening and tele-medicine.

#### Other Alternative Distribution Channels:

- **Agri-input retailers** (distributors of seeds, fertilizers and chemicals for agriculture) such as Krishite Syngenta who have more than 11,000 retail shops across Bangladesh. The value proposition for the agri-input company in distributing microinsurance is that it can increase their brand loyalty, increase sales of products, particularly slow-moving products when they are bundled with insurance. Evidence from BMMDP has shown that all retailers in their project have experienced 15% to 20% additional revenue from bundling insurance with a package of inputs such as fertilizer and micro-nutrients for improved crop production.<sup>105</sup> It also encourages farmers to try more innovative products, and reduces the farmer's risk to do so. However, lessons learned internationally from this distribution channel is that if the insurance is attached to a direct purchase, e.g. a packet of seeds, the farmer may need to take several steps to activate the insurance thereby reducing their desire to purchase it or activate it if needed. Also when

<sup>101</sup> MicroSave. 2018. Country Focus Note: Bangladesh. Accessed via: [https://www.microsave.net/wpcontent/uploads/2018/11/Bangladesh\\_Country\\_Focus\\_Note.pdf](https://www.microsave.net/wpcontent/uploads/2018/11/Bangladesh_Country_Focus_Note.pdf).

<sup>102</sup> BTRC Report end December 2019.

<sup>103</sup> Milliman. 2020. Asia Microinsurance Supply Side.

<sup>104</sup> BTRC, 2020

<sup>105</sup> BMMDP project team, 2022.

analyzing the input seller's margin on the premium versus the investment in sales and marketing (i.e., convincing the farmer to purchase the specific inputs that are covered by the microinsurance) margins can be very small, and in some case cause retailers to lose money. However, this can be counteracted by an increase in sales of inputs as seen in the BMMDP pilots.

- **Farmers Hub outlets** that act as one-stop commercial service providers for smallholder farmers providing access to quality inputs, finance, knowledge and more recently crop insurance.
- **Contract Farmers** such as Ejab Agro Limited who provide seeds and other services to smallholder farmers across Bangladesh.
- **Pharmaceutical Companies** who provide medicines and vaccines for livestock.
- **DLS** government extension services to smallholder livestock farmers.
- **Banks / NBFIs.** Bangladesh is seeing the emergence of bancassurance where banks and NBFIs are distributing insurance bundled with credit. For example as part of the BMMDP, Brac Bank and GDIC are collaborating to offer loans secured by microinsurance for the rural livestock farmers. Brac Bank provides the loan, GDIC provides the microinsurance coverage for both the asset (livestock) and Liability (outstanding loan amount) in case of death or permanent disability of the insured cattle. Under the bancassurance model insurance can work as collateral for the lending institution resulting in banking sector becoming more willing to offer financing to the low-income beneficiaries. Internationally bancassurance has proven to be viable in a short period of time. Not only can insurance be bundled with credit but also financial advice. If low-income populations have access to banks that are trusted, this distribution network offers significant growth potential.

There is evidence internationally for the potential of distributing microinsurance via **large corporate buyers** of products such as Pepsi, L'Oréal, Coca Cola, Nestle etc. They are beginning to play a role in distributing and subsidizing crop insurance, both as a way to secure their supply chains and as a corporate social responsibility effort. However, these partnerships will only impact the small percentage of smallholders worldwide who are growing cash crops and have access to these supply chains.<sup>106</sup> There are also opportunities in potential sub-sectors of microinsurance i.e. LE, furniture, handicraft and mango, to use trusted and efficient industry associations, buying groups and cooperatives to distribute microinsurance products in Bangladesh.

The distribution analysis has outlined that MFI's are one of the most trusted and efficient networks currently available in Bangladesh however beyond ICs and MFIs there are opportunities to expand distribution networks using banks / NBFIs, large corporate buyers, relevant industry bodies, agri input companies etc. Some of alternative distribution channels are currently in the early stages of being piloted as part of Phase I of BMMDP with lessons learned emerging that can be fed into a possible Phase II.

### 9.3. Supporting Functions

This section details the range of services that are required to support the core market system (i.e. supply and demand) ultimately helping the market to develop and grow. The following support functions (services, infrastructure etc.) are critical to the success of an inclusive microinsurance system in Bangladesh.

- Financing and Investment
- Communication and Information
- Risk Mitigation Services
- Legal Support
- Actuarial Services
- Technological Infrastructure
- Data Analytics
- Product Development
- Collaboration and Advocacy
- Capacity Development
- Surveyors

<sup>106</sup> Mercy Corps Ventures. 2022. Scaling Crop Microinsurance.

## Financing and Investment

Financing refers to the capital being provided to ICs to devise and distribute microinsurance. In Bangladesh the primary source of financing are the **multilateral and bilateral development partner agencies** where more than US\$250 million<sup>107</sup> of funding has been invested. Refer to Development partner Landscape Section 9.

**The MOF** has also invested in WB funded microinsurance projects. For example, the MOF's investment in the current WB project is US\$15 million of a total project valued at US\$80 million.<sup>108</sup> The financing covers IT infrastructure, capacity building and scholarships.

**PKSF** has invested in 40+ partner MFIs to assist scale up microinsurance and risk mitigation services in health, crop, and livestock sectors. It has also invested US\$500,000 for a CRF<sup>109</sup> and most recently US\$1.3 million of its own funds for the development of livestock risk mitigation services as part of the four-year SDC funded BMMDP project.<sup>110</sup>

International foundations such as **SFSA** have also invested in the development of microinsurance in the agricultural sector. Most recently SFSA have committed approximately US\$850'000 in cash and in kind for the development of index-based crop microinsurance as part of the four-year SDC funded BMMDP project.<sup>111</sup>

**MFI's** such as BRAC and Grameen Bank have invested in credit risk insurance and microinsurance product development. As have more than 40+ Partner Organization (POs) of PKSF. For example, PKSF POs have invested US\$1.1 million in two years as part of the SDC funded BMMDP project.<sup>112</sup>

Only a few ICs have invested in microinsurance with the majority of the finance coming from development partners. The low investment from ICs has meant that their barrier to exit from the microinsurance project has also been low. As such, the mainstream ICs in most cases pull out of their investments moving from one region to another pending the presence of development partner funding. With the exception of GDIC there is little evidence of using their own finances to explore new markets, identifying beneficiary needs and gaps etc, resulting in products that are not aligned to market needs.

## Capacity Development

Capacity development in microinsurance encompasses all initiatives, activities, and processes taken to build and strengthen the existing capabilities of the workforce.

There are few private sector providers of capacity building and skill development for microinsurance in Bangladesh.

Capacity building services are primarily delivered via technical assistance in development partner projects with the recipients being MFI's, IDRA, MRA, ABIA, some ICs, low-income beneficiaries of microinsurance and students of the insurance sector.

IDRA, ABIA, BIA, and MRA all have important roles in the capacity building of stakeholders in the microinsurance market system, however, they all critically lack capacity or incentive to do so.

**IDRA** maintains that it is severely understaffed, operating at 10% of capacity, to be able to undertake meaningful capacity development activities. The Government of Bangladesh in its 8<sup>th</sup> FYP states that it will take measures to build the capacity of IDRA and other insurance-related agencies. Discussions with the FID of the MOF, elude that

<sup>107</sup> Estimation by Study Team based on assessment of the development partner landscape from 2012 to 2022.

<sup>108</sup> <https://projects.worldbank.org/en/projects-operations/project-detail/P156823>

<sup>109</sup> World Bank. 2018. Bangladesh Agricultural Insurance Situation Analysis.

<sup>110</sup> PKSF. 2021. Progress Brief 1: Strengthening Resilience of Livestock Farmers through Risk Reducing Services Project.

<sup>111</sup> Syngenta Foundation. 2020. Swiss partners help more Bangladesh farmers benefit from insurance

<sup>112</sup> PKSF. 2021. Progress Brief 1: Strengthening Resilience of Livestock Farmers through Risk Reducing Services Project.

the government primarily intends to raise the funding for capacity development through development partners. Currently the largest funder is the WB who is providing capacity building activities to IDRA (and ABIA).<sup>113</sup>

**ABIA** the government national level insurance training and education provider lacks capacity to meet the demand for insurance professionals including actuaries and claims/loss adjusters. ABIA offers certificates and diplomas in life, non-life, and allied areas of training, however, does not currently offer any subjects on microinsurance product development or marketing. Training provided by ABIA is mostly related to the operational practices of the life and general insurance organizations. Furthermore, ABIA's training facilities are not adequate, and it also lacks autonomy to innovate its curriculum as it is dependent on the governing body controlled by the MOF. The current WB project has a component on modernizing ABIA's physical infrastructure and building human capacity. It is too early to determine the impact of these interventions however if successful ABIA could play a key role in addressing the skill constraints and building public awareness and trust in the microinsurance sector. A strong and effective ABIA is crucial to promote higher standards of integrity, technical competence and business capability to address the severe lack of insurance professionals, not only for ICs, but for IDRA as well.<sup>114</sup>

**BIA** organizes basic and short courses for its members and has a Memorandum of Understanding (MOU) with the Malaysian Insurance Institute to improve the working knowledge of insurance operations. To date it has not provided training to its members on microinsurance.

Under Article 24 of the MRA Act 2006, **MRA** is mandated to build MFIs human and technical capacity for operating microinsurance. However, it is not clear what activities MRA has provided to their members in this area.

There are several other private sector training providers who have offered short courses in microinsurance. These include the **Bangladesh Institute for Professional Development** and **Professional Advancement in Bangladesh**.

Some of the MFIs and microinsurance companies (BRAC, Sajida Foundation, GDIC etc) fund their own training for their staff building internal capacity. BRAC train their field staff and also train the leader of farmer groups on the product and host financial and insurance literacy meetings.

**Local Department of Agricultural Extension (DAE) office** provide training to farmers on the use of modern technology in crop production, disease and pest management, post-harvest management and value addition etc.

The analysis has highlighted the need for capacity building in the following areas of the microinsurance sector in Bangladesh.

- Delivery of all skills by existing training providers
- Actuarial skills for ICs
- Market needs and trends assessment for ICs
- Product development for ICs, MFIs, IDRA, and MRA.
- Technological adaptation and implementation for ICs and MFIs
- Claims processing for ICs
- Regulation and inter-agency collaboration for IDRA, MRA, BB, BIA, FID and other relevant ministries for sector specific microinsurance products
- Advocacy for BIA
- Innovative partnership development, product prototype development facilitation, and market needs assessment for development agencies / donor funded program implementers
- Financial literacy training for beneficiaries
- Sector specific skill development for ICs e.g. if developing a product for the fisheries sector the following skills are needed:

<sup>113</sup> World Bank. 2021. Bangladesh Insurance Sector Development Project (P156823). Implementation Status and Results Report. 25 December 2021.

<sup>114</sup> World Bank. 2017. Project Appraisal Document for Proposed Bangladesh Insurance Sector Development Project.

Bangladesh needs more strategic investment in capacity building of the key stakeholders in microinsurance across a diverse range of professional skills. A key part of making this happen is to catalyze **innovative partnerships** between MFIs and ICs for cross fertilization of knowledge and skills.

Bangladesh can learn from several global experiences and institutional capacities. In Kenya, the regulator mandated the use of actuaries, after 20 years the pool of talent increased significantly.

There is an existing and vast knowledge repository from international experience that can be leveraged for the development of the institutional capacities in Bangladesh. Some of these include the **Microinsurance Network**, **ILO's Microinsurance Innovation Facility** and academic institutions such as **The Center for the Advancement of Social Entrepreneurship (CASE)**. This information has been used to develop many markets. **The International Fund for Agricultural Development (IFAD)** has produced a working paper that explains the different stages of research, prototyping, and developing microinsurance products. The **Frankfurt School of Finance and Management** has a microinsurance training course and looks for local partners in emerging countries to help organizations (e.g., banks, MFI, ICs and brokers) tap into a new, high potential market segments. **ILO** in particular has been teaming up with local insurance training organizations to develop microinsurance.

### Surveyors (Assessors)

Surveyors are licensed individuals and entities that investigate the extent of the loss or damage related to an insurance claim. This function is sometimes done in person or over the phone. In a complex claim, a surveyor may follow up on police, hospital, or other relevant records.

There are approximately 136 insurance surveyors in Bangladesh all of whom are members of the Bangladesh Insurance Surveyors Association.<sup>115</sup> Licenses are issued by IDRA however under the Surveyor Act of 1988 surveyors must conduct a minimum of two surveys (assessments) each year to renew their license on an annual basis. ICs pay surveyors for their services and as a result the surveyors are influenced by the result the IC wants from the survey. If an IC doesn't like the assessment, they won't rehire them. It is unclear how many of these licensed surveyors are outside of major urban areas and hence their availability to assess claims in remote areas.

### Data and Analytics

ICs need insights and data to develop customer centric microinsurance products. Both are essential for analyzing risks, pricing premiums and overall product development.

The microinsurance sector in Bangladesh is heavily constrained by a lack of data and there are no local commercial providers.

The GOB is not systematically collecting data that can be used to assess the status of the market and define the potential of microinsurance.

IDRA has the mandate to conduct research, collect and analyze statistics for the insurance sector, including the mortality and morbidity tables however it has limited capacity and the limited statistics that are available on its website are related to its monitoring activities. A lack of modernized information technology (IT) systems inhibits data collection exercises.<sup>116</sup>

The need for data is duly acknowledged in the 8th FYP of Bangladesh. It mandates IDRA to develop a framework to store all the policy-related data in a digital policy repository called Unified Messaging Platform which will help IDRA to digitalize the information and analyze insurance-related data. Despite this mandate it is not clear whether this incorporates data that is relevant to microinsurance in Bangladesh. As part of the WB's support to build the capacity of IDRA mortality and morbidity data will be developed.

<sup>115</sup> Bangladesh Insurance Surveyors Association.

<sup>116</sup> World Bank. 2017. Project Appraisal Document for Proposed Bangladesh Insurance Sector Development Project.

**BIA** on its website offers some insurance statistics on life and non-life insurance however the latest data is from 2016, and there is none on microinsurance.

**ABIA**, despite being an academic organization does not have any data on the microinsurance sector available on its website.

The **Bangladesh Bureau of Statistics** is the centralized official bureau in Bangladesh for collecting statistics on demographics, the economy, and other facts about the country and disseminating the information.

Weather and climate dependent sectors such as agriculture and fisheries need tailored weather and climate data, products, information and services to improve planning and decision-making and to mitigate the adverse effects of climate variability and change. Likewise, microinsurance companies needs this data to assess risks and develop weather-based index insurance (WBII) products.

For weather and climate related data the **Bangladesh Meteorology Department (BMD)**, under the Ministry of Defence (MOD) is the key supplier.

Other government departments with a mandate to provide weather and climate data include:

- **Bangladesh Water Development Board (BWDB):** water resource information and flood forecasting services;
- **DAE** collects and provide agro-climatic data
- **Water Supply and Sewerage Authority (WASA)**
- **Department of Disaster Management (DDM)**
- **Department of Fisheries (DOF) and Port Authority**
- **The Bangladesh Agricultural Research Institute (BARI):** developing data on 20 types of crops

**Development partners (World Bank, ADB)** have funded the development of data including weather data, mortality and morbidity data. ADB has invested in data servers for Bangladesh which will accept via blue tooth data from semi-automatic rain gauges.

**International sources** of historical weather data, daily rainfall and temperature satellite data is available from: **University of California Santa Barbara (UCSB), the United States' National Oceanic and Atmospheric Administration (NOAA), National Aeronautics and Space Administration (NASA)**, and several European and Asian sources, among others. A major advantage of data from these sources versus those from BMD is the turnaround time to obtain this data and the granularity of the data. For example, data from international sources only takes a few days which enables insurance claim pay-outs within one week, whereas BMD data can take 20 to 40 days to obtain causing major delays in pay-outs. Whilst some organizations in Bangladesh are using this international data i.e. BRAC, most ICs are reluctant to purchase it as they do not consider it to be cost-effective. There are new private providers of weather data emerging outside of Bangladesh, e.g. **Skymet** in India who provides data for weather monitoring and agri-risk solutions company with expertise in measuring, predicting and limiting climate risk to agriculture. The BMMDP are currently working in partnership with Skymet. They are one of a growing global sector of innovative businesses such as: **Accuweather, WeatherBug, Planalytics etc.** The entry of these service providers into the market will assist overcome the issues of private investment in weather data in Bangladesh and ultimately spark competitor to BMD.

**Robi, Banglalink and Grameenphone** provide market information, agricultural news and weather information via interactive voice response (IVR) or native voice services in both Bangla and English to farmers. These services have not scaled yet. Offering voice-based services is an important step given the high rates of illiteracy among the target audience. However, there is still a lack of awareness of these services and their value proposition (especially important for individuals with low disposable incomes).

Global experience suggests that there are cost effective alternatives to obtaining data to undertake a risk assessments and define risk premiums. For example, a small-scale pilot can be used to empirically define the pricing through trial and error. Also, household surveys can provide estimates of risk over a defined period of time. ICs can also learn from other countries and projects and apply an expected claims cost to adjust to the parameters of Bangladesh.

Several international organizations such as **The Microinsurance Centre at Milliman, DUKE University, Insurance Development Forum, A2ii and GSMA** are dedicated to developing data and insights on microinsurance however most Bangladesh based ICs do not utilise this data and insights to develop new markets.

### Technological Infrastructure (Insurtech)

Technological infrastructure in microinsurance refers to the set of software and hardware systems that improve the efficiency of all aspects of the development and delivery of microinsurance products and services.

Unfortunately, the microinsurance market in Bangladesh has not yet leveraged the country's developments in technological infrastructure and related policies compared to other sectors and other countries. There are very few providers of technology supporting services which could assist improve the efficiency of the sector and catalyse partnerships between ICs and other actors.

Some existing examples of microinsurance actors using technology include:

- Top ICs (**GDIC, MetLife, Pragati, Guardian, Chartered Life**) have been able to digitalize their internal management systems allowing them to onboard users faster through directly using/integrating the user database of clients into their own system, and expediting core business processes such as claim settlement and documentation.
- **Brac, Square Pharmaceutical, and Apex** have sponsored an award-winning app called **EasyLife** for Guardian Life Insurance. The EasyLife policy can also be purchased via digital banking apps such as **Bkash and OK wallet**.
- There has also been an emergence of digital service providers (such as **Digital Health, Maya, Milvik Bima and Microinspire**) who are partnering with ICs and providing alternative distribution models. These have resulted in thousands of people being insured.
- **Mobile Network Operators (MNOs)** have entered partnerships with TVAS providers for life and health microinsurance products
- **Robi, Banglalink and Grameenphone** are currently offering mobile agricultural services, mainly providing market information, agricultural news, and weather information via interactive voice response (IVR) or native voice services in both Bangla and English.
- There are signs of some initial investments in insurtech<sup>117</sup> such as recently launched insurtech **Insurecow** who have developed cattle identification technologies.
- **Syngenta Foundation** is developing an IT Platform called '**Resilience Engine**' used to implement and monitor all activities of their crop microinsurance pilots.

Internationally, the pandemic has pushed the insurance sector to develop alternatives to paper-based and face to face systems. Despite this Bangladesh's microinsurance stakeholders have not been able to sustain any tech solutions due to:

- Technology is beneficial but is not a substitute for face-to-face customer service which remains the preferred option for most low-income beneficiaries, and one they are used to via the MFIs distribution model.
- Technology providers that have partnered with ICs noted that the ICs' internal systems are not nimble enough to adapt to new technologies.

<sup>117</sup> Insurtech refers to the innovative technologies and new digital tools developed to optimize the performance of insurance companies, to deliver a better customer experience, and unlock the potential of advanced analytics.

- Whilst mobile usage is high, smart phone usage is not, hence integrating tech services for low-income beneficiaries has not yet been harnessed due to lack of digital literacy.

### Actuarial Services

An actuary is a technical expert in insurance and applied mathematics, who applies theories of probability, economics, and finance to the business of insurance and is responsible for the calculation of premiums, reserves, and other valuations.<sup>118</sup>

The actuarial scene in Bangladesh is still nascent. There are only five actuaries in Bangladesh with approximately four or five guaranteed in the pipeline.<sup>119</sup> Despite IDRA mandating ICs to invest and develop actuaries this is not being endorsed. Currently most ICs use the services of international actuary consultants. An absence of actuaries for microinsurance is due to:

- the tariff system in non-life insurance where prices are set by IDRA and CRC, removing the need for an actuary
- lack of regulatory oversight by IDRA
- most microinsurance is predominantly in the domain of MFIs where the risk premium is fixed therefore there is no need for actuaries to price premiums.
- senior management of ICs currently do not see the value of an actuary

Bangladesh is currently not part of the **International Actuary Association**<sup>120</sup> which could provide the country with global credibility and access to expertise and experiences of other emerging economy members.

In the short term the lack of actuaries does not represent a big challenge given the nascent stage of microinsurance, where products are still being piloted and prototyped and skills can be outsourced more cost-effectively from international actuaries. However, it is a challenge for the medium to longer term continuing to restrict innovation. As the sector matures, there will be a need for actuaries to design more competitive and innovative products. Based on global experience it is possible to develop local talent within a 10-year period if there is a concerted effort between IDRA and the ICs.

### Communication and Information

Communication refers to raising awareness of the low-income population to the impact and benefits of microinsurance in uplifting lives. It also refers to information flowing from microinsurance beneficiaries to market actors to assist in understanding the beneficiary's needs for product and service delivery.

#### Information flow from actors to beneficiaries:

Distribution partners of ICs and MFIs provide beneficiaries with information on insurance policies however this information often does not clearly articulate the policy benefits in a manner that beneficiaries understand. FGDs and KIIs highlighted other contributing factors to either poor quality communication or a lack of understanding from beneficiaries:

- Frontline employees of distributors do not have enough training to effectively communicate with beneficiaries.
- Farmers often do not attend the full training session, leaving early without adequate knowledge.
- Delivering trainings via a traditional class room approach is not always the most effective way to communicate with farmers, yet are often the most common form of training.

<sup>118</sup> Microinsurance Network definition

<sup>119</sup> Whilst government has issued scholarships for up to 14 actuaries to obtain qualifications it is estimated after 8 years that only 3 or 4 of these will graduate.

<sup>120</sup> International Actuary Association

- Some MFIs intentionally do not want farmers to know about the programs as this could result in additional claims, resulting in pay-outs.
- Trainings delivered by some of PKSF's POs were not monitored for quality of information and in some cases the POs were not delivering the right / necessary information to farmers.

Transparent and regular communication and awareness raising is vital in ensuring product success. In Guatemala MICRO sells index-based insurance via the MFI Bancamia. Training and incentives have been provided to Bancamia branches to include awareness raising and information on their products, with the outcomes of the activities measured using the lapse ratio - a helpful indicator of whether the communication is working. MICRO builds into its business model client-based outcome measurements providing feedback mechanisms from which they continually evolve and improve communication to the low-income segments.

Most **development partner** microinsurance pilots include awareness raising and education activities and some financial literacy trainings, these activities have limited sustainability beyond the program funding period.

The BMMDP project is using Outbound Dial (OBD) systems to deliver messages to farmer's mobile phones with weather forecasts and agro advisory services such as suggestions for improving management of crops or advance protection measures to save their crops from damage. Farmers trust this and have expressed how beneficial the service is.

Despite relying on **agri-input dealers** for information, farmers increasingly do not trust their weather-related information citing they did not think it was up to date and often incorrect.

**DLS and DAE** provide information to farmers via Local Sub Assistant Agricultural Officers (SAAO) or the local agricultural extension office.

**Media Outlets:** Media can play a significant supporting role in addressing low awareness and trust issues of low-income households via mediums such as print, TV, radio and the internet. Increased, consistent and transparent communication via the media that targets smallholder farmers and MSMEs has the potential to increase awareness levels, and ultimately increase the uptake of microinsurance.

There is a thriving media industry in Bangladesh with who can provide these services however to date very few microinsurance companies are using these channels. Mass media is strongly anchored in the lifestyle of low-income people in Bangladesh. For example, television is the most popular form of mass media, with 94.5% of farmers utilizing it to get agricultural information.<sup>121</sup> A report by DAI highlighted that a higher percentage of women-owned MSMEs than men-owned MSMEs use social media indicating this may serve as a more appropriate entry point to introduce microinsurance.<sup>122</sup> Social media and internet is also perceived to be a crucial tool for Department of Agriculture Officers for disseminating relevant agricultural information, and raising awareness and support for relevant farming policies with farmers<sup>123</sup>.

#### Information flow from beneficiaries to ICs and other actors:

**Critically lacking are systems and processes of collecting information (data and insights) from beneficiaries that can inform product development, pricing, awareness levels etc.** Currently most development partner pilots will conduct some FGDs and in-depth interviews with beneficiaries, however beyond this many ICs and MFIs do not invest in quality consumer research. The use of insurtech solutions to collect data from beneficiaries has huge potential. Despite COVID-19 increasing the use of digital solutions, technology support services are critically

<sup>121</sup> Khan S., et al. 2017. Effectiveness of Selected Mass Media in Agricultural Technology Transfer to the Farmers of Bangladesh.

<sup>122</sup> IBID.

<sup>123</sup> Kamruzzaman M., et al. 2018. Extension Agents' Use and Acceptance of Social Media: The Case of the Department of Agricultural Extension in Bangladesh.

lacking in Bangladesh to enable the collection of key data on beneficiaries. Without comprehensive systems in place ICs and MFIs continue to develop and price products that are not demand led.

### Legal Support

Legal support is the system that is available to both demand and supply-side actors which they can avail of in the case of any conflict that may arise between the insurance company and the policyholder regarding the terms and conditions of the insurance. Two key components of the legal support function are laws and lawyers.

In Bangladesh, the lawyers who specialize in insurance law play the role of arbitrators in the legal support system defending both the policyholder and insurance provider. Given microinsurance is a nascent sector in Bangladesh there are very few, if any of the 3,898 registered lawyers, with knowledge of the insurance regulations.

A functioning legal support system can have a positive impact on the growth of the microinsurance sector. There is a strong requirement to provide clear and concrete legal guidelines on microinsurance. The **A2ii program funded by GIZ** helps insurance regulators in emerging markets to discuss and study how to increase access to insurance. There is a vast body of lessons learned and knowledge to assist ascertain what has and hasn't worked.

Alternative legal support systems should also be explored. For example, providing insurance legal training to NGOs who are already providing legal assistance in other sectors could provide a stop gap. **Sajida Foundation, in their HELP program**, provides legal assistance to women which is embedded into their microcredit services and available to those who face gender violence-related issues.

### Product Development

Product development for microinsurance is a continuous process, designed to ensure that appropriate market driven products get delivered in an effective manner and are monitored for potential improvements.

A critical prerequisite to the success of any new product is following a systematic product development process. Product development services to in Bangladesh are critically lacking. There are a few organizations such as **Milvik BIMA and Microinspire** who bring global and local expertise to partnerships with ICs for product development however beyond that there is a limited supply.

Many insurers and MFIs in Bangladesh do not follow systematic product development processes. Skipping the product development process and launching a product that fails, results in the insurer becoming disinterested, and eventually dropping the product. It also results in ICs reluctance to continue participating microinsurance schemes deterring the growth of the market. Another disincentive for ICs developing products is that any new scheme requires prior approval from IDRA and SBC before being launched to market. This is a lengthy process taking 6-12 months compared to 3-4 weeks in most other countries.

There are international ICs such as **AXA** who have dedicated teams within the organization to develop microinsurance products in emerging economies. There are many international organizations who provide these services including **Pula, Celsius Pro, Blue Marble Microinsurance, Microinsurance Centre, Milliman** etc. There is also a large body of knowledge and best practices tools that exist that could be adapted to the local Bangladesh context.

### Collaboration and Advocacy

Low-income segments are a complex target group to develop and distribute microinsurance products, thus effective collaboration, including partnerships, with multiple actors is critical, for example, ICs, regulators, government ministries, NGOs/MFIs, technology providers etc.

Collaboration amongst the key actors in the microinsurance sector is poor, as is advocacy. Conflicts of interest and a lack of understanding on the benefits of microinsurance has resulted in the private sector and public sectors not effectively collaborating with each other.

There are no effective mechanisms for collaborating and an absence of strong meso level organizations who can champion microinsurance.

- *Public Sector Collaboration:* Ambiguity between MRA and IDRA, and differing views on microinsurance between some policy makers, have resulted in little incentive for collaboration between high level government officials. For example, parliament, IDRA and MOF only passed 11 of IDRA's 50 draft regulations.
- *Private Sector Collaboration:* The threat of competition and captive insurance markets that deliver significant profits to ICs and MFIs has removed any incentive for collaboration. Refer to Political Economy. There are some innovative partnerships between MNOs, ICs and TVAS providers delivering microinsurance. E.g. Milvik BIMA and Microinspire.
- *Public-Private Sector Collaboration:* A recently formed committee consisting of IDRA, MRA, and IC representatives aims to provide a platform for these key actors to resolve regulatory and operational conflicts. To date, there have been no success stories or concrete initiatives. There is some evidence of government departments and the private sector collaborating for improved weather data. For example, BMD, the Flood Forecasting and Warning Centre, CEGIS, and other relevant actors have successfully improved the number of days for flood early warnings.
- *Advocacy:* There is an absence of effective advocacy in the microinsurance market.
  - Within ICs, there are very few champions who are advocating to their Board of Directors, the ultimate decision makers, for the importance of microinsurance and the inclusion of it within a company's portfolio, hence a small number are engaged in the sector.
  - At an **industry association level**, there are two insurance industry associations: **BIA** and **BIF**. Both are responsible for advocating for an improved enabling environment. However, to date, they have not used their influencing power to effect change for microinsurance. BIA's member base consists of almost all the life and non-life ICs and whilst they are pro the development of the microinsurance sector, they are against the involvement of MFIs. BIF's membership is made up of CEOs of the country's top ICs who are highly influential and do advocate to IDRA for an improved enabling environment, however their focus is on the broader insurance market rather than microinsurance. Regardless, some of their policy recommendations to IDRA, if accepted, could have a positive impact on the microinsurance market. For example, in 2021, BIF submitted seven recommendations to IDRA on how to complete all types of transactions through banks and pay insurance claims on time, which should result in a more transparent and more effective insurance sector. BIF and BIA work closely together and have enormous influencing power over IDRA and other government ministries.
  - Over the past decade, **development partner projects** have included advocacy activities with outputs such as studies on regulatory gaps and recommendations, draft policies and regulations, industry forums and workshops etc. To date, these activities have not resulted in any significant enhancements to the regulatory environment for microinsurance.

**The Consultative Group to Assist the Poor (CGAP)** is a global partnership of more than 30 leading development organizations that works to advance the lives of poor people, especially women, through financial inclusion. Their role is to conduct advocacy and research. In 2005, they conducted two studies on microinsurance in Bangladesh.<sup>124</sup>

**Effective collaboration can have positive long-term impacts:** The Philippines developed a collaborative approach with all government departments working together to increase inclusive insurance. Over ten years periodic consultation with regulators and ICs led to the constant review and development of inclusive insurance regulations resulting in significant increases in microinsurance penetration.

### Risk Management Services

Risk management services refer to the risk handling activities, beyond insurance coverage, that are in place to reduce potential risks before they occur. The availability of risk management services is a critical component when developing new microinsurance markets and entering into new market segments. Their presence assists in bringing the price of insurance down, making it more affordable.

Suppliers of risk mitigation services in Bangladesh include:

**The GOB** develops policies and regulations, and invests in critical infrastructure and services for disaster preparedness for climate change, occupational health and safety, productivity gains for individual sectors such as extension services to farmers, etc. With support from the WB and ADB, the GOB has invested over US\$1 billion in coastal infrastructure, cyclone shelters, seismic risk mitigation, fire hazard, climate resilience, and disaster preparedness and response.<sup>125</sup>

Public extension service institutions include the following: **DAE, DOF, DLS, Agricultural Information Service (AIS), Department of Agricultural Marketing (DAM), and Bangladesh Agricultural Development Corporation (BADC)**. The DAE is the largest organization and employs 14,092 field-level extension agents, with each responsible for 900-2,000 farming families. The DOF and DLS have few field-level extension agents—usually only two to three at the Upazila level (which includes 60,000 to 70,000 farms) and none at the union or block level. The level of effectiveness of these extension services can be debated; however, from a microinsurance perspective, it is important that they exist and are utilized.

DAE (via WB funding) provides agrometeorological advisory service to provide early warning services for farmers.

There are also private sector providers of extensions services such as **sector and sub-sector associations, agri-input companies, agribusinesses, and agri pharmaceutical companies**. Training providers (Refer to Capacity Development) are also a risk mitigation service.

Internationally, there are organizations focused on risk management services for smallholder farmers.

For example, **Weather Risk Management Services (WRMS)** in India is an agriculture and dairy risk management company. They leverage data, technology and financial innovation to develop risk management solutions that help farmers enhance productivity, gain a secure income, and practice sustainable farming. WRMS have previously partnered with GDIC and Oxfam to pilot a WIBCI scheme in Bangladesh.

<sup>124</sup> CGAP. 2005. Health Microinsurance-A Comparative of Three Examples in Bangladesh; and GCAP. 2005. CGAP Working Group on Microinsurance, Good and Bad Practices.

<sup>125</sup> Investments via: Emergency 2007 Cyclone Recovery and Restoration Project (ECRRP) (US\$221 million); Coastal Embankment Improvement Project Phase I (CEIP) (US\$400 million); Multipurpose Disaster Shelter Project (MDSP) (US\$370 million); Bangladesh Urban Resilience Project (US\$123 million); Bangladesh Climate Change Resilience Fund (US\$ 130 million); Community Climate Change Project with NGOs (US\$12.5 million); and the Climate Resilient Participatory Afforestation and Reforestation Project (US\$33.8 million).

**The analysis on supporting functions has highlighted that several key services and supporting infrastructure required for a functioning microinsurance market system are considered ‘critically lacking’.** The first is a lack of accessible and/or available data and insights from which the sector can develop insurance products and pricing, as well as understand the market opportunities for product development. Also, a lack of product development support and know-how leaves the sector with limited microinsurance products that meet the needs of low-income households; the absence of multi-stakeholder coordination mechanisms to advocate for an improved microinsurance enabling environment; and limited training and skills providers to address the many skills gaps of the sector. To address these, there are opportunities to facilitate and incentivize investment and skills development in these critically lacking supporting functions.

## 9.4. Rules and Norms

The microinsurance market is affected by various social and institutional rules and norms that dictate the sector. The majority of the institutional rules originate from the Insurance Act 2010 and Microcredit Regulatory Authority Act 2010, whereas the majority of the norms are informal and originate from people's gradual interaction with the insurance sector and the cultural and social fabric of Bangladesh.

### 9.4.1. Key Rules

An overview of the key regulations and policies pertinent to microinsurance are summarised in Annex 6.

The three primary regulations that exist yet provide a conflicting framework are:

- *Insurance Act 2010* – states how the insurance sector will operate
- *Insurance Development and Regulatory Authority Act 2010* – states how the regulator IDRA will operate
- *Microcredit Regulatory Authority Act 2006* - states how microcredit sector will operate

The contradictory regulations create ambiguity between MRA and IDRA, resulting in no consensus on who regulates microinsurance, severely impacting the growth of the microinsurance sector. Refer to Political Economy Analysis in Section 5 for more details on the contradictions.

**Tariffs:** The non-life insurance market of Bangladesh is tariff based. The Central Rating Committee (CRC) works with the insurance experts of Bangladesh under the leadership of the Chairman of IDRA to determine and approve the tariff applicable for non-life insurance. The tariff applies to the principal classes of business such as fire, motor, workers' compensation, marine hull, and marine cargo. Agricultural insurance is not subject to tariff rating. This dependency on a tariff system can create issues with premium rates potentially not developed actuarially and nor in line with demand.

**Reinsurance:** Under Insurance Act 2010 and National Insurance Policy 2014, the **legislation requires that private non-life insurers place 50% of their reinsurance with SBC and the remaining 50% can be placed with international reinsurers.** However, there is no such obligation with state-owned JBC for life insurance. Removing the requirement to place 50% with the state-owned insurer could open the market up to the private sector actors investing in this important supply component of microinsurance.

As a plan of expanding the domestic capacity of reinsurance, the National Insurance Policy 2014 puts emphasis on establishing a separate reinsurance body, however to date, this has not occurred and is possibly not a key priority. In the current provision of the law, reinsurance is merely linked with microinsurance if the potentiality of the partner-agent model grows. i.e., MFIs and ICs partner.

**Mandatory insurance:** Any government policy on mandatory insurance could assist in unlocking ICs' inertia to operate in the microinsurance market. For example, when the government made it mandatory for migrant workers to obtain death and disability insurance under the Expatriates' Welfare and Overseas Employment Policy, 2016 ICs began offering these products to low-income households. In 2019, MOF wanted to make insurance mandatory on flats, buildings, offices, and crops, however, to date this has not been approved.<sup>126</sup> IDRA is currently working to incorporate into Bangladesh's labour law mandatory group insurance for employees of enterprises and factories with 200+ employees.<sup>127</sup>

**Targeting Rural Communities:** In May 2018, the government updated the 2010 Insurance Act to include Section 6 requiring insurers to write a percentage of their business in the rural or social sectors depending on the age of the insurance company. This could have had a significant impact in forcing insurers to develop products and services for the rural population and expanding their distribution strategies beyond urban areas, however, IDRA

<sup>126</sup> Alam M.M. 2019. Kamal: Mandatory insurance for flat, building, office, crop soon.

<sup>127</sup> Asia Insurance Review. 2021. Bangladesh: Regulator to enforce mandatory group insurance requirement.

currently does not enforce this requirement. Without any enforcement or formal measurement of this regulation the potential benefits of Section 6 are unlikely to be seen. Furthermore, the regulation does not provide clarity on the definition for microinsurance products including agriculture to assist insurers develop products for the rural or social sectors.

**Investment:** Under the Foreign Private Investment Promotion and Protection Act, 1980 the GOB has capped foreign investment in ICs to 60%.<sup>128</sup>

**Value Added Tax (VAT):** The Value Added Tax and Supplementary Duty Act, 2012<sup>129</sup> waives VAT for life insurance premium but not for health and non-life insurance premiums, where 15% VAT is imposed. With the rise of health insurance (currently 20% of total insurance), the imposed VAT is burdensome as many schemes combine life and health components.<sup>130</sup> VAT is also applied when the premiums are provided to reinsurance companies. BIA has been advocating to eliminate the application of VAT on health insurance and reinsurance but with no success to date.<sup>131,132</sup>

**VAT regulations in other countries:** Changing VAT rules is extremely difficult and rare in many countries. In Canada there is an exemption on health insurance premiums offered by NGOs. An examination of the VAT law in a number of countries in New Zealand, Australia, and Tanzania demonstrates that the base value for the application of VAT on general insurance services is explicitly stated in their insurance regulations whereas in Bangladesh it is not. New Zealand charges VAT on insurance company premiums (both fire and general), commissions, and other income (such as proceeds from the sale of damaged assets). Deductions are allowed for outward reinsurance, VAT paid on purchases (including goods purchased to settle claims), and the tax fraction of payments made in satisfaction of claims.

**Consumer Protection Rights:** Consumer Protection Act, 2009 does not include the financial sector, i.e. microinsurance, therefore exposing policy holders to fraudulent acts by insurers.

**MFS:** In 2011, the BB had issued guidelines for MFS to improve access to financial services to the unbanked. The guidelines permitted the use of MFS to make a wide range of transactions, including insurance premium payments to ICs. Since then, there has been significant growth in mobile money accounts.

**Inter-agency coordination mechanism for microinsurance governance and policy development.** The absence of a multi-stakeholder inter-agency taskforce or governance structure only adds to the regulatory framework challenges. A taskforce to drive policy dialogue and develop a microinsurance policy roadmap is urgently needed.

**Risk Mitigation:** There are a wide range of government policies that contribute to risk mitigation interventions for the low-income populations of Bangladesh. When developing products actuaries will look to see if risk mitigation policies are in place. If it is determined that these policies are endorsed and effective in reducing the risk coverage of the insurer, the actuary can reduce the price of the premium.

Examples of some of the key 'risk mitigation' policies include:

- **National Insurance Policy, 2014** requires ICs' participation in rural and underdeveloped communities.
- **The National Agricultural Extension Policy's (NAEP), 2012** mandates governmental agricultural departments, such as DAE and DLS, to provide extension services for crop and livestock farmers.
- **Bangladesh Climate Change Strategy and Action Plan 2008** mentions that the GOB intends to increase the resilience of climate -vulnerable groups through safety nets and insurance programs.

<sup>128</sup> Asia Insurance Review. 2013. Bangladesh: Govt caps insurance FDI at 60%.

<sup>129</sup> Yusuf M.A. 2021. VAT on insurance service and the new law.

<sup>130</sup> TBS Report. 2021. Insurers want abolition of tax on health insurance.

<sup>131</sup> IBID

<sup>132</sup> Asia Insurance Review. 2021. Bangladesh: Insurers lobby against VAT and other taxes.

- **Gender Policy by National Social Security Strategy** commits to cover female employees in the formal sector for unemployment, illness, maternity and accidents, and extends low-cost health insurance programs to previously uninsured groups such as low-income informal sector workers.

#### Numerous policies and regulations do not exist inhibiting the growth of the microinsurance sector.

Further analysis is required on the specifics of each regulation needed.

- There is no unified regulatory framework for the microinsurance sector, nor any mutually understood definition of microinsurance.
- Clear regulations on permitting a wide variety of distribution systems do not exist.
- Proportionate education requirements of distributors to sell insurance are missing.
- Time limitations on the regulators for fast approval of insurance company products is not stated.
- The absence specific of agriculture and livestock microinsurance policies constrains MOA and MOFL in supporting the development of products that would benefit the agriculture and livestock sectors. The absence of these policies also restricts the ability of ICs to tailor products that meet the needs of both farm and non-farm low-income market segments.
- A range of regulations specific for index-based microinsurance products are missing. For example, a regulation that allows for a separate method of calculating technical reserves for index insurance products; regulations that clearly state the marketing requirements of ICs of such products which can overcome issues of poor communication to beneficiaries. This would include regulations that state marketing materials should explain that pay-out depends on the value of the index and not the actual loss or should explain which risks are covered and which are not, and what index is used to calculate the pay-out, and expected frequency of pay-outs.<sup>133</sup>
- There is no regulation that allows mutual microinsurance models where the low-income communities own the insurance company. Globally, research has shown that mutual microinsurance has the potential to contribute to building financial literate, insurable, resilient and empowered communities. Following a natural disaster, mutual microinsurance is likely to be most effective in combination with other financial mechanisms, such as access to credit and emergency aid in building resilience of low-income communities.<sup>134</sup> Mutual microinsurance companies are allowed in the Philippines, with a lower minimum of risk capital of US\$500,000 adjusted up based on the risk taken by the company. This has played a significant role in increasing the uptake of microinsurance schemes in rural areas, and could do the same for Bangladesh.
- Currently there is no regulation permitting the sale of composite microinsurance products (i.e. life and non-life) via one insurance company.

#### 9.4.2. Informal Norms

Much of the social and institutional norms have been discussed in detail in the political economy and development partner analysis sections. Informal norms that affect the sector are:

- **Low-income households distrust ICs and their schemes.** This is an historical and deeply entrenched norm that has not waned since the 1980's when ICs did not settle claims and insurance fraud was rife. Regardless of an insurers capability this historical distrust issue continues to impact the sector's development.
- **Low-income households consider insurance to be a cost of credit negating or ignoring its risk coverage features.**
- **Gender norms.** In Bangladesh, prevailing gender inequality often intersects with other forms of vulnerabilities, which limit women's access to resources and decision-making power. However as the key loan takers for livestock they are a potential decision maker for purchasing microinsurance. The gender norm can

<sup>133</sup> A2ii. 2018. Index Insurance. Status and Regulatory Requirements. Report of the 26th A2ii – IAIS Consultation Call. January 2019.

<sup>134</sup> Cambridge Institute for Sustainability Leadership (CISL). 2019. Mutual microinsurance and the Sustainable Development Goals: An impact assessment following Typhoon Haiyan. Cambridge, UK: Cambridge Institute for Sustainability Leadership.

result in women being difficult to reach for awareness activities or for microinsurance sales and marketing activities.

- **Supply side actors believe that to reach low-income target segments there are no alternatives to field-level and in-person contact.**
- **ICs perceive that without subsidies (especially for the agriculture sector), microinsurance is not profitable.** They firmly believe that microinsurance should either be funded by development partners or government subsidies and until such time they are not interested in investing in the sector. However, there are positive signs that microinsurance can be profitable without subsidies. Examples include: the current Phase I of BMMDP where 100% of approximately 400,000 beneficiaries have paid premiums from their own funds without any subsidies at all; and Oxfam's recent flood index insurance, where 4,500 farmers are now paying 100% of the premium and MFI's and ICs are negotiating incentives that are sufficient for MFIs to want to continue distributing products without subsidies.<sup>135</sup> This indicates that crop microinsurance has the possibility of being sustainable without subsidies, contrary to the consensus of ICs.
- **ICs believe in microinsurance, however do not want MFI's to participate.** This norm is so strong that it severely impacts IDRA's ability to move forward with an improved regulatory environment.
- **Owners of ICs are only in the insurance sector for self-interest** and are therefore not interested in targeting low-income segments.
- **ICs believe that the microinsurance market will not develop unless the GOB intervenes and makes insurance mandatory.**<sup>136</sup> The acceptance of this inhibits development of the microinsurance market as the majority of ICs wait for a top-down supply driven enforcement of insurance, rather than a bottom-up demand driven approach.
- **Government officials believe that subsidies reduce the productivity of a farmer,** which negatively impacts the goal of commercializing agriculture. Some think that subsidies will provide too much of a safety net for farmers encouraging them to become 'lazy' thereby impacting overall productivity. This prevents some key government officials from using their influencing power to develop the sector.

The analysis of rules has shown an urgent need for policy dialogue and evidence-based data to address:

- The weak and fragmented regulations on microinsurance
- A lack of inter-agency collaboration on policy dialogue
- The GOB tariff system which disincentivizes non-life ICs to develop products and price products based on demand
- Consumer Protection Act that does not include microinsurance therefore exposing vulnerable and low income microinsurance beneficiaries to incidents of malpractice and fraud
- VAT which raises the price of premiums impacting affordability of microinsurance policies for beneficiaries

The analysis of norms has shown that most are informal norms and there are opportunities to shift these norms towards more positive results in the microinsurance sector:

- Gender norms must be taken into consideration when designing project interventions. With many previous projects not addressing these there are opportunities to increase gender inclusion via the development of gender-specific microinsurance products, particularly for livestock farmers, handicrafts, furniture etc.
- Understanding which communication tools smallholders and MSMEs access and use is key to overcoming lack of awareness and distrust including those specific to women.

<sup>135</sup> Key Informant Interviews, February 2022

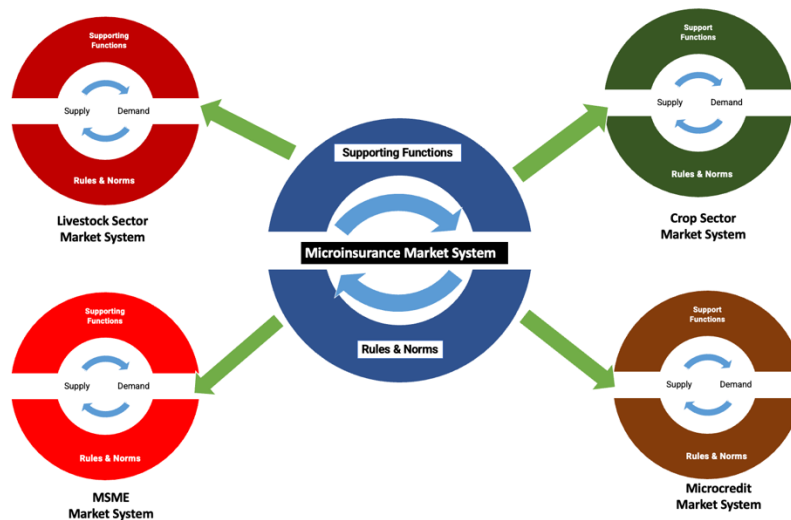
<sup>136</sup> Rahman, S. 2022. Why most Bangladeshis are not covered by insurance. The Business Standard. 4

- Delivering communication messages that are easily understood and transparent will assist improve the understanding and benefits of microinsurance versus microcredit.
- Evidence-based data and advocacy can play a significant role in overcoming the views of GOB officials that subsidies reduce farmer productivity preventing support of microinsurance.

## 10. Interconnected Markets

The microinsurance market of Bangladesh is influenced by several interconnected market systems that can have both positive and negative impacts on the sector growth. Refer to Figure 11.

Figure 11: Microinsurance Key Interconnected Markets, Bangladesh



### 10.1. Crop Sector

**Market System:** The crop sector is highly relevant to the microinsurance sector in Bangladesh since most microcredit schemes provided by MFIs are crop loans. The crop sector includes commercial, semi-commercial, and smallholder farmers. It also includes value chain intermediaries engaged in input supply, processing, trading, packaging, transportation and distribution of crops to local, regional, national and international wholesalers, exporters, retailers and the public procurement system. The broader agriculture sector in Bangladesh contributes 12.9% to GDP, with the crop sub-sector sharing 60% of the overall output.<sup>137</sup> The sector has experienced an average annual growth of 3.2% since 2018.<sup>138</sup>

**Sector’s potential positive impacts on microinsurance:** The National Agricultural Policy 2018 emphasizes the need for structural changes to ensure improved productivity, quality of output, and diversification of crops. If achieved, these goals could lead to increased demand for microinsurance coverage in the sector. With the introduction of new risk mitigating technologies such as weather data, insurers will be incentivized to invest in the crop sector with premium costs potentially reduced. The mechanization of agriculture is expanding fast in Bangladesh, which could provide opportunities for microinsurance of agricultural machinery. Furthermore, the increased impacts of climate change on crop production provides opportunities for the expansion of microinsurance products to help farmers with the shock of crop loss.

**Sector’s potential negative impacts on microinsurance:** Whilst the likelihood of moral hazard happening is potentially quite low, some insurers are concerned that crop insurance claims are difficult to assess and that

<sup>137</sup> Agriculture, forestry, and fishing, value added (% of GDP) - Bangladesh.

<sup>138</sup> Imdad M.P. 2021. Revitalizing Bangladesh’s agriculture sector.

‘moral hazard’ ,i.e. farmers deliberately sabotaging their crops, is a possibility.<sup>139</sup> Index based products can assist eliminate this concern, whereas all other forms of insurance face ‘moral hazard’ issues. Good communication and reliable claims verification can overcome these issues.

**Implications/conclusions:** To date, the crop sector has been the most influential in the development of the nascent microinsurance sector. As a sector focused on improving productivity whilst at the same time impacted by climate change the microinsurance sector has a key role to play and vice versa. However, the lack of readily available data on the sector, and lack of claims verification processes stand as obstacles.

## 10.2. Livestock Sector

**Market System:** Bangladesh’s livestock sector plays an essential role in food security and rural development as part of an integrated farming system tailored to local and national needs. Livestock constitutes an important income source, particularly for landless households and women. Income, savings and family nutrition are quickly improved through productive livestock enterprises among the smallholder, marginal and landless farmers.

In 2020, the livestock sector contributed 1.44% to the country’s GDP, and 13.10% to agricultural GDP. In rural areas, livestock production and enterprises account for 20% of direct employment and 50% of indirect employment.<sup>140</sup>

Microcredit has been an effective tool for providing access to finance poor and marginalised livestock households. Around 40%<sup>141</sup> of MFI clients invest their microcredit in livestock rearing, with beef cattle fattening as one of the most preferred investment choices of microcredit borrowers. Insurance embedded in the livestock loans can specifically protect women from the risk of indebtedness.

**Sector’s potential positive impacts on microinsurance:** The National Livestock Development Policy, 2007 underlines necessary improvements in the production of milk, meat and egg, and development of private sector involvement. The livestock industry is observing increased investment from the private sector in terms of contract production. The market for sacrificial cows during the Eid-ul-Adha is expanding and has attracted investments from new entrants in the market. The booming e-commerce sector is influencing more organized production and trade. All of these factors can potentially influence demand for microinsurance as the increasing investment and credit exposure risks need to be covered. Furthermore, the increased impacts of climate change on livestock production provide opportunities for the expansion of microinsurance products to help farmers with production loss.

**Sector’s potential negative impacts on microinsurance:** The lack of morbidity tables and historical data for cattle rearing in Bangladesh are two of the major issues in risk assessment, and they act as obstacles for livestock microinsurance product development. In addition, the absence of effective cattle identification systems increases the possibility of fraud committed by farmers for claims settlement. This is seen as a barrier to entry for insurers.

**Implications/conclusions:** The growth in organized private sector investment in the livestock sector may induce demand for microinsurance. However, the current microinsurance products do not necessarily meet the demand of the farmers. The farmers have expressed the need for insurance against accidental injury, coverage of animal health medicines, and other risks associated with loss in productivity. This would require product innovation in microinsurance.

<sup>139</sup> Zhao, Y. et al. 2017. A test on adverse selection of farmers in crop insurance: Results from Inner Mongolia, China (sciencedirectassets.com)

<sup>140</sup>Department Livestock Services. 2021. Livestock Economy at a Glance 2020-21.

<sup>141</sup> PKSF, August 2021.

### 10.3. Microcredit Sector

**Market System:** There are 842 registered MFIs in Bangladesh reaching approximately 32.37 million customers, with transactions of US\$7.2 billion annually. Both the disbursement of micro loans and the number of borrowers have increased greatly over the decade.<sup>142</sup> These NGO/MFIs take credit from other financial institutions (Banks & NBFIs) and government bodies (PKSF) and provide loans to the low-income segment (smallholders and MSMEs).

**Sector's potential positive impacts on microinsurance:** The majority of microinsurance schemes are protection against crop loans, i.e. these schemes are usually bundled with microcredit products. The crop sector is the most explored in terms of microinsurance products with approximately 94.7% of MFIs in the microinsurance sector providing crop loans. According to CDF, these crop loan insurance schemes have steadily increased over the years and are likely to continue flourishing. Consequently, this establishes a positive relationship between microcredit and microinsurance. The more the microcredit coverage increases, the more the microinsurance sector can develop.

**Sector's potential negative impacts on microinsurance:** Microinsurance services that are provided with the microcredit products have limited scope mostly covering the loan coverage on death of the borrower, leaving out other crucial risk areas. This indicates that MFIs are more comfortable in providing insurance coverage with microcredit products, and are not likely to extend protection for risks other than for credit defaults. In addition, MFIs lack the skills in microinsurance product development, which makes them more hesitant on devising insurance products.

**Implications/conclusions:** The close association of microinsurance with microcredit, and microcredit's growth implies a high growth potential for the sector.

### 10.4. MSME Sector

**Market System:** The MSME sector in Bangladesh is large in both number and economic contribution. It is estimated that there are more than 7.8 million MSMEs in Bangladesh, contributing to 25% to GDP while employing more than 20 million people.<sup>143</sup> SMEs are a vital part of the national supply chain. They participate in all stages of sourcing, production, and distribution across a number of sectors ranging from agriculture to manufacturing.

**Sector's potential positive impacts on microinsurance:** The National Industrial Policy 2016 aims to strengthen the capacity of MSMEs by providing better access to finance, supplies, and distribution networks. The large number and growth of MSMEs in Bangladesh are positives for the further development of the microinsurance sector. As MSMEs grow, they become more liable to various accidents such as fires, theft, market failures, supply chain blockades, etc., and this invites more opportunity for provision of microinsurance. This finding is evidenced by a study on SMEs in South Africa, where the microinsurance sector grew in accordance with the growth of the SME sector.<sup>144</sup>

**Sector's potential negative impacts on microinsurance:** Due to the unstructured and unregulated nature of most MSMEs in the country, it can become hard for insurers to correctly assess associated risks. Made more complicated by the fact that most MSMEs are unregistered<sup>145</sup> and not liable to any authority insurers find it

<sup>142</sup> Credit and Development Forum. 2021. Annual Report 2020-21.

<sup>143</sup> Abdin, J. 2019. MSMEs - both a choice and a reality for Bangladesh.

<sup>144</sup> Aliber, M. Social Finance Programme & InFocus Programme on Boosting Employment through Small Enterprise Development

<sup>145</sup> Islam, R. 2021. E-database for SMEs on the card.

difficult to provide protection to them due to the possibility of fraud, a lack of fixed operation plans, and simply the variety of their businesses.

**Implications/conclusions:** Despite their risks, MSMEs and agro-based MSMEs, in particular, are still a highly targeted sector in terms of microinsurance schemes. The 2019 National SME Policy underlines the enabling of MSMEs by bringing them under regulation by providing them with access to formal financing, national supply chains, and skills training. This simultaneously increases risks and regulation of MSMEs providing insurers with more opportunities to target them with microinsurance schemes.

The analysis on the four key interconnected markets of crop, livestock, microcredit and MSMEs has highlighted the significant positive and negative impacts each have on the microinsurance market. These impacts accentuate the importance of improving multi-stakeholder coordination and collaboration from each of these sectors to ensure growth of the microinsurance market.

## 11. Challenges and Constraints to Growth

Key challenges and constraints to growth of the microinsurance sector in Bangladesh are well documented throughout this MMSA and in many other sector studies. Figure 12 provides the microinsurance market system problem tree.

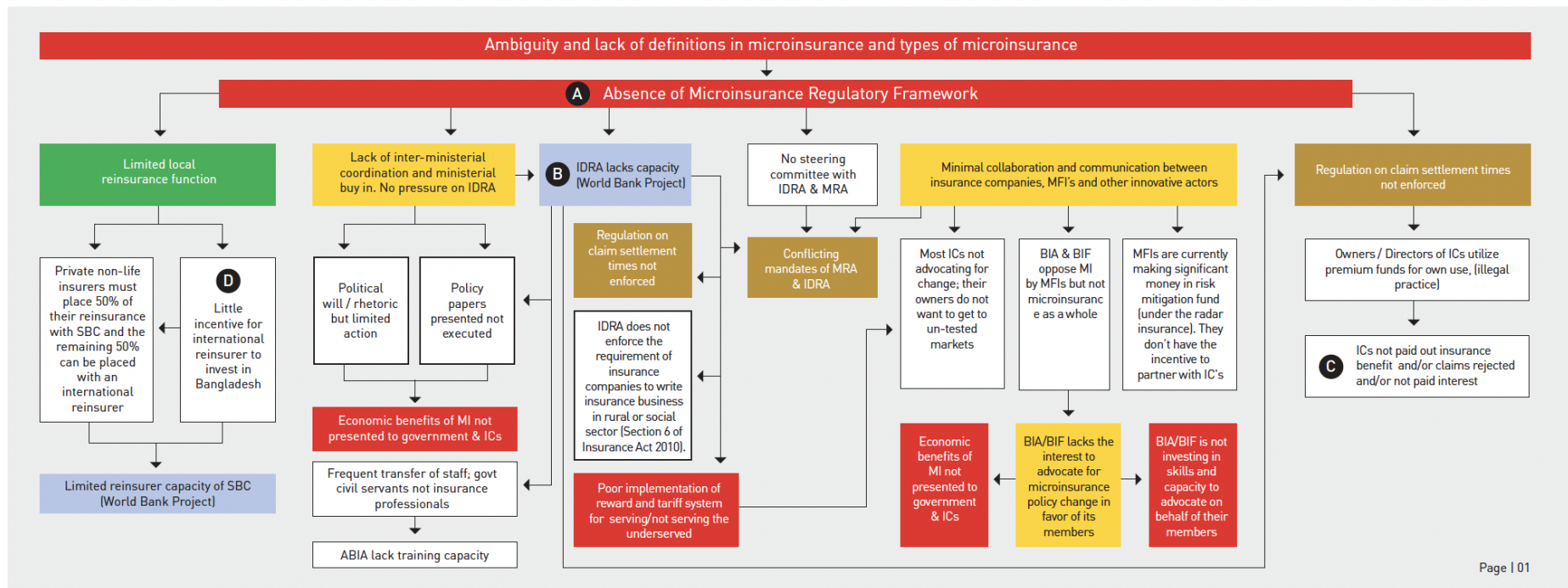
- There is no unified regulation or clear definition of microinsurance resulting in a weak regulatory environment.
- IDRA lacks capacity to effectively regulate the microinsurance sector.
- Low-income beneficiaries do not trust ICs, have a lack of financial literacy and limited awareness of the benefits and needs for insurance.
- Product development is supply driven and based on development partner interests. MFIs and ICs lack product innovation and development skills.
- Lack of incentives from GOB to support innovation in the sector.
- Absence of critical support services such as information, technology solutions for insurance policy administration, weather data, cattle identification, and MFS for premium collection and rapid settlement.
- Data for developing products and knowledge on the opportunities in microinsurance are either not developed or made readily available.
- Limited distribution channels to reach potential beneficiaries.
- Absence of actuaries in Bangladesh with only a small number in the pipeline expected to graduate.
- Development partners have distorted the market by being the main form of investment and subsidising premiums and ICs' operating costs.
- Poor development partner coordination and collaboration.
- Absence of inter-ministerial collaboration mechanisms.
- Absence of consistent and effective advocacy mechanisms for policy development.
- Poor professional microinsurance skills of key actors.

Figure 12: Bangladesh Microinsurance Market Systems – Problem Tree

# Bangladesh Microinsurance Market Systems-Systemic Constraints Analysis

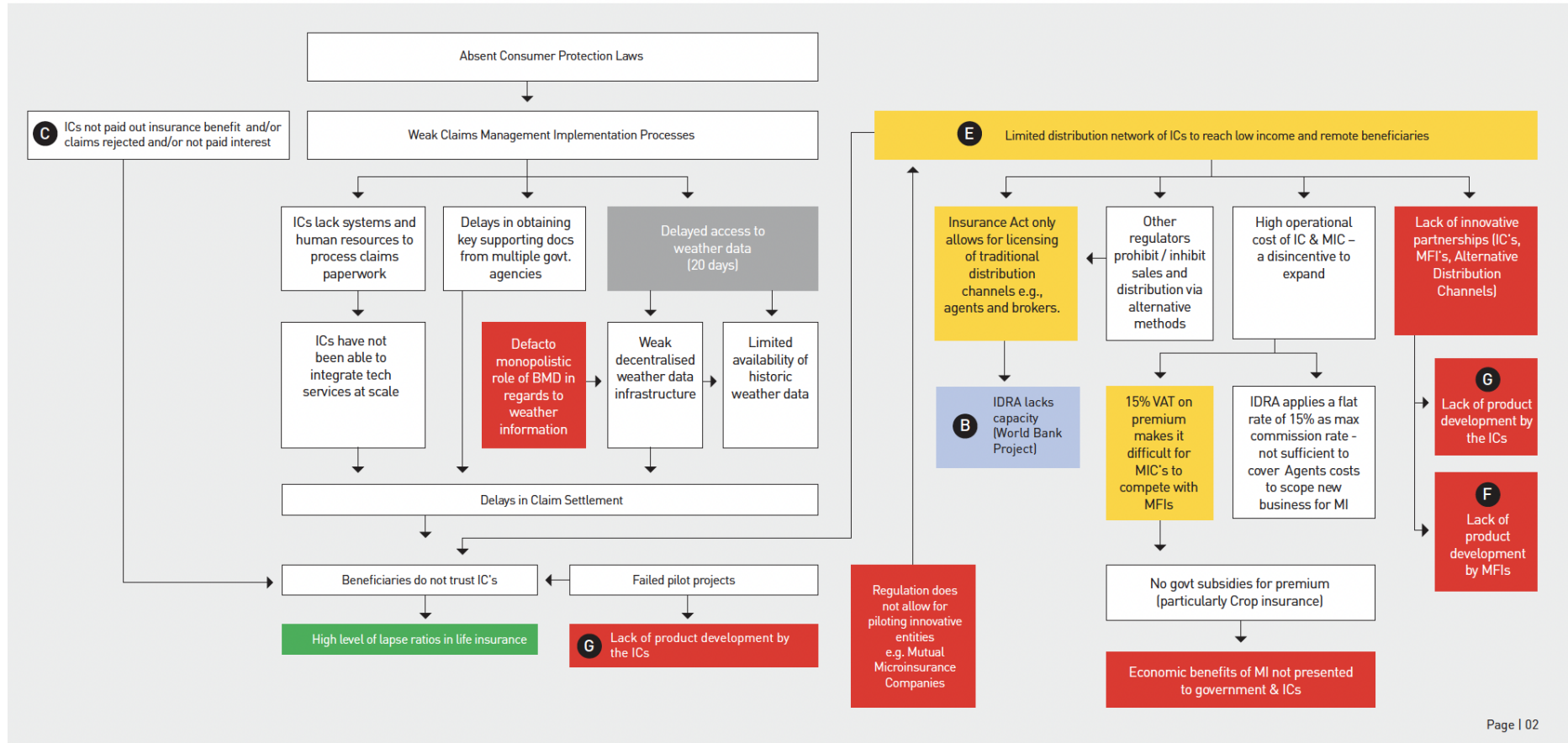
- Very important blockage - priority area for intervention within BMMDP scope
- Less important blockage, don't prioritise intervention
- Fairly important blockage, for consideration as intervention area
- Grey area: more research needed to find out how big the problem is.
- Problem, beyond scope of BMMDP
- Existing donor intervention.

ACRONYMS			
ABIA	Bangladesh Insurance Academy	MI	Microinsurance
BIA	Bangladesh Insurance Association	MICs	Microinsurance Companies e.g Green Delta, Pragati, Guardian
BIF	Bangladesh Insurance Forum	MFI's	Microfinance Institutions e.g. BRAC, POPIs
ICs	Insurance Companies	TVAS	Telecom Value Added Service Providers e.g Mivik BIMA



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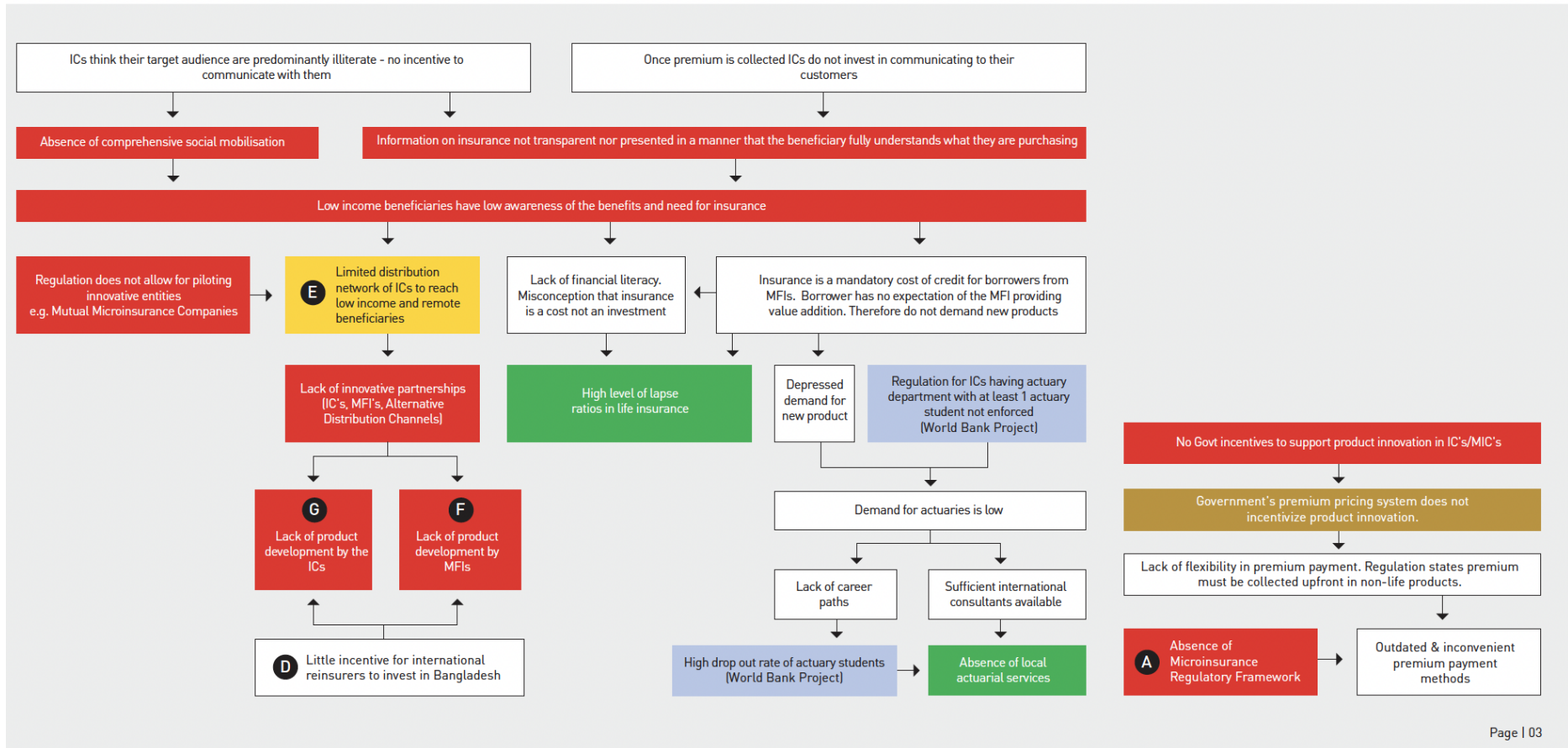
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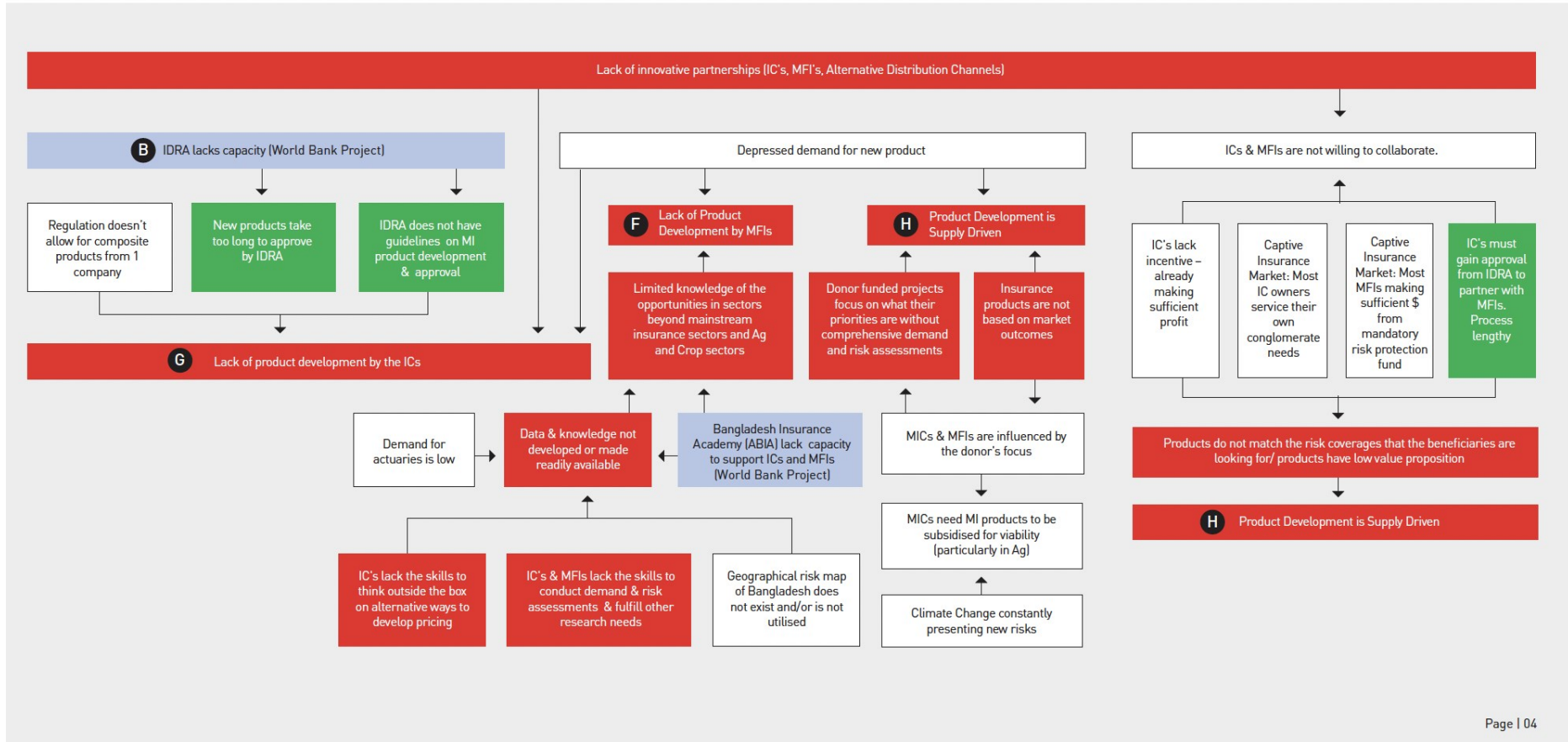
**ACRONYMS**

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## 12. Potential Microinsurance Sub-Sector Analysis

This section provides an overview of the results for seven potential microinsurance sub-sectors assessed, including the rationale for investing in the top four highest scorers. For further analysis of each sub-sector refer to the individual Sector Profiles (*provided as separate documents*).

Based on the 15 investment criteria, the results confirm that there are four potential microinsurance sub-sectors shortlisted with potential for investment. Each and every sector has their own challenges in terms of development and distribution of microinsurance products. Further risk and demand assessments must be conducted before making a final decision. Once these are completed, it is recommended that the scoring for these short-listed sectors and the investment prioritization is reviewed. The top four potential microinsurance sub-sectors include LE, mango, furniture and retail. Mango offers BMMDP with a significant opportunity under their current phase as a sub-sector within the agriculture sector. Swisscontact, funded by SDC, is already working in the LE, mango and furniture sectors in Bangladesh – leveraging this knowledge and expertise as part of the next stage of assessment will be critical.

Table 4: Ranking of Potential Microinsurance Sub-Sectors Analysed for Potential Microinsurance Interventions - Bangladesh

Rank	Potential microinsurance sub-sector	Score (Out of 75)
1	Light Engineering	55.5
2	Furniture	53.0
3	Mango	50.5
4	Retail (incl. SMEs & Micro-merchants)	50.5
5	Handicrafts	45.5
6	Floriculture	43.0
7	Fisheries	41.5

Score Range	Recommendation
0 to 23	Do not proceed. Not feasible.
24 to 46	Not ready now. Re-assess situation in 12 months.
47 to 70	Recommended for SDC to invest in, however further risk and demand assessments are required before making a final decision.

### 12.1. Light Engineering (LE)

- Rank #1
- Score 55.5/75

**Recommendation:** From an insurance perspective, LE is considered to have the greatest potential to attract insurers. Whilst it ranks 1 out of 7 sectors, further evaluation is required to determine whether or not demand exists and key actors are trusted and willing to participate.

- The LE sector is a priority domestic and export sector, assisting Bangladesh's economy to diversify away from its reliance on the Ready-Made Garments (RMG) industry.

- With estimated growth of 30% per annum for the next five years (2021-2025) and a significant percentage of those employed coming from low-income households, the sector scores high on opportunities for the poor, poor inclusion, market size, pro-poor market growth, and vulnerability and/or disadvantages.<sup>146</sup>
- Whilst it is a male dominated sector, there could be opportunities for gender inclusion.
- There are also no significant risks associated with climate change; however, there is a possibility for indirect impacts for LE business owners and employees outside of the business.
- Most risks identified are related to occupational health and safety.
- There are lead associations and a healthy political economy (priority sector). GDIC highlighted the possibility to explore MI opportunities in this sector.
- There is potential to use MFIs as key distributors of any products as they are already providing credit loans to LE SMEs. With a good distribution system, the LE sector should generate interest from other ICs.
- Potential microinsurance products for the LE sector include life insurance, accident insurance, health insurance and coverage for loss or damaged machinery. However with specific sector skills would need to be developed for ICs to be able to assess risks and demand in the sector. For example when developing and implement products that cover machinery, engineering skills in the insurance company would be needed. An assessment of the willingness to ICs to do this is needed.
- There is institutional knowledge of working in this sector with SDC and Swisscontact from the current PRABRIDDI project in Bangladesh, which is partnering with the Bangladesh Engineering Industry Association to providing technical support to the LE entrepreneurs. The project will also explore access to finance and compliance for business growth and market expansion. Opportunities to include microinsurance as part of access to finance may exist.

## 12.2. Furniture

- Rank #2
- Score 53.0/75

**Recommendation:** Proceed to a short list for further evaluation on the business case for developing a microinsurance product.

- The furniture sector in Bangladesh is valued at US\$2.9 billion<sup>147</sup> accounting for 0.29% of GDP.<sup>1</sup>
- With a market size of and project growth of 18% to 20% growth per annum the sector demonstrates significant growth potential.<sup>148</sup> Export markets are also experiencing a growth of 267% in ten years from 2008.
- The furniture sector scores high on inclusion of the poor with the 2.5 million employed predominantly from low incomes households and the opportunities for incomes to increase.
- The sector cannot be considered gender inclusive with only a small percentage of women employed in a few larger factories, where they work on the assembly processes. Therefore, there are opportunities for improving gender inclusion.
- The sector scores low on being impacted from climate change, rather it is a major contributor to deforestation and carbon emissions in other raw materials used. Insurance products could potentially be tied to sustainability practices in order for an improved strategic alignment to SDC's climate pillar.
- The most significant risks identified for the sector are fire and employee injuries, both of which provide easy entry points for which ICs could be interested in developing products for.

<sup>146</sup> LightCastle Analytics. 2020. Light Engineering Sector: Can It Be Taken Lightly? Accessed via: <https://databd.co/light-engineering-sector-can-it-be-taken-lightly/> and Newvision. 2021. Light Engineering Industry: Situation, Progress and Prospects Accessed via: <https://newvision-bd.com/light-engineering-industry-of-bangladesh/>

<sup>147</sup> Noyon, A.U. 2020. Futures Burns Bright for Furniture. Newspaper Article. The Business Standard, 24 January 2020. Accessed via: <https://www.tbsnews.net/economy/industry/future-burns-bright-furniture-38827>

<sup>148</sup> Naher, K. 2021. Our furniture industry needs a seat at the table: Hatil MD. Newspaper Article. The Business Standard, 6<sup>th</sup> December 2021. Accessed via: <https://www.tbsnews.net/features/panorama/our-furniture-industry-needs-seat-table-hatil-md-339301>

- The sector has a strong industry association representing the larger furniture manufacturers, which provides opportunities for a trusted and functioning network to reach beneficiaries as well as opportunities for group insurance, thus lowering premium costs.
- GDIC sees potential opportunities for fire and health microinsurance in this sector.
- There is institutional knowledge of working in this sector with SDC and Swisscontact from the current Phase II of the B-Skillful project (2020-2024) in Bangladesh. Important to catalyse the experience of this project as part of any further assessment.

### 12.3. Mango

- Rank #3
- Score 50.5/75

**Recommendation:** Proceed to a short list for further evaluation on the business case for developing a microinsurance product. In addition to gaining a more in depth understanding of the risks and demand, it would be critical to ensure that there is a trusted and functioning distribution network e.g., association or cooperative to reach the mango producers.

- Mango has huge export potential for Bangladesh with the ability to positively impact the lives of the poor, including women, bringing positive pro poor growth to the country. This potential has yet to be fully exploited.
- The domestic market accounts for 99.94% of the sector with exports only 0.06%. The GOB has set an export target of 1 lakh ton per year for the next three years. Exports trebled in FY 2020-2021 from 279 tonnes in FY 2019-2020 to 791 tons.<sup>149</sup>
- In the key mango growing regions of Bangladesh, up to 85% people are directly or indirectly dependent on mango cultivation.<sup>150</sup> Many smallholder farmers are transitioning from cash crops such as rice to mango due to its high value and 80% less water usage.<sup>151</sup>
- Mango is a male-dominated cash crop where involvement of women is limited to the post-harvest process and grading. Women are typically not involved in trading and processing. This presents opportunities for increasing gender inclusion.
- The crop is a priority high value export crop for the government of Bangladesh with the MOA investing in infrastructure and risk mitigation policies and methods to improve production. A more detailed understanding of the risk mitigation methods is needed.
- Climate change is having an impact on the production of mango with increased diseases, drought and flowering patterns.
- There are identifiable and actionable constraints to growth with sufficient lead actors with incentives to solve these.
- It is critical to have a trusted and functioning entity that can reach potential clients. Further research is needed on the capacity of the local cooperatives, mango associations and cold storage associations to determine the number of farmers they cover and whether or not they are effective in delivering services (including risk mitigation training and other services) to their members.
- There are no existing mango microinsurance products in Bangladesh with international examples existing in India and Morocco. With loss of crop from poor transportation being a key risk, international experience has shown that this is a very difficult risk to cover with insurance. Obtaining information for claims assessments is difficult. However, a product designed around guaranteed price could be possible with good skills. Quality and disease could also be covered, however this would need good risk mitigation services tied to the insurance. A product with the most potential could be around flowering of the plants, which has significant

<sup>149</sup> <https://archive.dhakatribune.com/business/economy/2021/07/18/bangladesh-is-top-10-in-global-mango-exporters>

<sup>150</sup> Dhaka Tribune. 2018. Mango plays vital role in improving livelihood in Rajshahi, The Dhaka Tribune, 3 June 2018.

<sup>151</sup> Sampa, A.Y. and Alam, A. 2019. Socio-economic status and rationale of mango cultivation based on some selected areas in Rajshahi district of Bangladesh. Accessed via: [https://www.researchgate.net/publication/333113760\\_Socio-economic\\_status\\_and\\_rationale\\_of\\_mango\\_cultivation\\_based\\_on\\_some\\_selected\\_areas\\_in\\_Rajshahi\\_district\\_of\\_Bangladesh](https://www.researchgate.net/publication/333113760_Socio-economic_status_and_rationale_of_mango_cultivation_based_on_some_selected_areas_in_Rajshahi_district_of_Bangladesh)

productivity and fruit quality impacts for export. Refer to the Ghana case study on the types of risk mitigation practices that could be considered.

- Whilst mango has been identified by some insurance actors as showing potential for an index-based microinsurance product, a major challenge will be in finding the right skills within the insurance industry to develop product/s.
- There is institutional knowledge of working in this sector with SDC and Swisscontact from the current PRABRIDDI project in Bangladesh. The project is helping these mango farmers by connecting them with e-commerce platforms. It will be important to catalyse the experience of this project as part of any further assessment.
- As an agricultural related sector, mango is a good strategic fit with the existing Phase I of BMMDP.

#### 12.4. Retail

- Rank #4
- Score 50.5/75

**Recommendation:** Proceed to a short list for further evaluation on the business case for developing a microinsurance product. Determine if the focus should be micro-merchants or retail SMEs. A more in depth understanding of the risks and demand is crucial, as is the identification of trusted distribution networks.

- The retail sector is a significant contributor to GDP at 13% per annum and the market continues to grow as per capita incomes positively impact buying capacity of all socio-economic groups.<sup>152,153</sup> In 2020, the market was valued at US\$ 16 billion.<sup>154</sup> The retail sector employs 6 million workers across 2.5 million enterprises with a percentage of those employed earning below average incomes.
- Micro-merchant retailers as a potential sub-sector should be considered. Valued at US\$18.65 billion, the sector scores high on inclusion of the poor and pro poor growth. There are 1.3 million retail micro merchants<sup>155</sup> supporting two million people directly or indirectly involved. Almost 50,000 people enter the sector each year, many of these are considered unpaid family labour.<sup>156</sup>
- The micro-merchant and SME retail sectors do not score high on gender and disadvantaged person inclusion. SME retailers in Bangladesh are reluctant to hire female employees and persons with disabilities because of safety and security issues and the perception towards women that they have limited capacity to endure physical strain. Only 2% of the retailers are willing to hire persons with disabilities.<sup>157</sup> Only 94,800 of more than 1.3 million retail micro-merchants are owned by women owned.<sup>158</sup> Inclusion of women and vulnerable people would require significant change in social norms.
- Climate change has significant impacts on retailers' supply chains and micro-merchants whose shops are often located in marginal areas, are more vulnerable. Retailers are impacted by weather events such as flood and fire damaging stock and delays in deliveries.
- The government recognizes that both the retail and micro-merchant retail sectors are important.
- There are no major issues or bottlenecks with the enabling environment and political economy beyond those that already exist within the microinsurance sector.
- Risks (theft, inventory loss, property damage – flood, fire, delays in stock, business continuity) and constraints to growth are clearly identified and there are some existing insurance products and players in Bangladesh.

<sup>152</sup> The changing retail market landscape (thefinancialexpress.com.bd)

<sup>153</sup> <https://www.dhakatribune.com/business/economy/2020/08/11/bangladesh-s-per-capita-income-at-2-064-for-fy20>

<sup>154</sup> Islam, K.W. 2021. Super shop Industry in Bangladesh: A sector with Huge Potential. Article from 5 November 2020 Accessed via: <https://businessinspection.com.bd/supershop-industry-in-bangladesh/>

<sup>155</sup> Microentrepreneurs Asia. 2020. Women Micro-Merchants in Bangladesh: Can digital tech break barriers?

<sup>156</sup> Islam, K.W. 2021. Super shop Industry in Bangladesh: A sector with Huge Potential. Article from 5 November 2020.

<sup>157</sup> BRAC. 2021. Opportunities to enhance youth employment in retail sector. Article published 13 December 2021. Accessed via: <http://www.brac.net/latest-news/item/1341->

<sup>158</sup> Microentrepreneurs Asia. 2020. Women Micro-Merchants in Bangladesh: Can digital tech break barriers?

- The SME sector is a growth sector for microinsurance internationally. If there is a trusted way of reaching retailers and/or micro-merchant retailers, insurers may be interested in developing multiple microinsurance products such as accident, life, fire, health and consider coverage for motorcycles.
- Whilst a key challenge would be having the data to price any insurance product for this sector with the right expertise, it would be possible to overcome this and develop data in pilots or research.
- Skills of insurers would also need to be developed to ensure they understood the market and how to service it better, beyond the urban areas.

## 13. Proposed Microinsurance Sector Strategy

### 13.1. Vision for Systemic Change

A trusted and commercially viable microinsurance market in Bangladesh that addresses the demand of the targeted farm (smallholders) and non-farm enterprises (MSMEs) through a range of insurance service providers (general ICs, MFIs, and alternative tech-based service providers). A system that is characterized by a well-functioning regulatory environment that catalyses investment from public, private and not-for profit sectors in capacity building, product development, pricing, sales and marketing, product delivery, process management (e.g. claims management and pay-outs etc.) and technological infrastructure including insurtech.

#### Short Term Vision

Multiple stakeholders commence collaborating and advocating for a more conducive regulatory environment. Leading ICs in Bangladesh begin to leverage technology (IT systems, Insurtech etc) and innovative partnerships with public-private-not for profit organizations to offer market led microinsurance schemes that are based on demand and risk assessments of targeted beneficiaries in selected farm and non-farm subsectors.

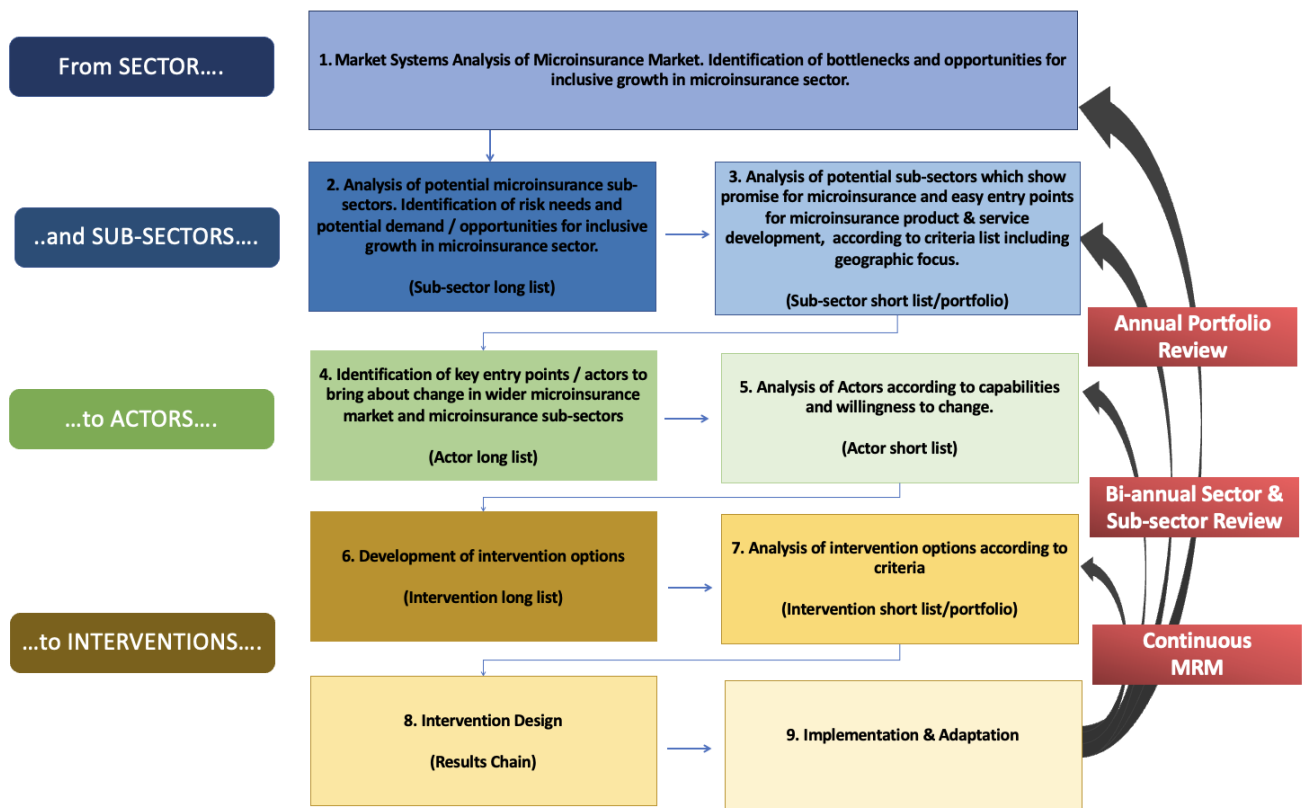
#### Long Term Vision

The microinsurance market in Bangladesh progresses in response to an improved regulatory environment. Investments are made in a wide range of services from private, public and not-for-profit sectors that support market driven microinsurance schemes. Resilience of farm (smallholders) and non-farm enterprises (MSMEs) to climate and economic shocks is strengthened, thus improving their productivity and contribution to the country's inclusive economic growth.

### 13.2. Intervention Framework

To achieve the strategic vision of the microinsurance market the systemic constraints must be addressed through targeted interventions. The process of defining, implementing and refining these interventions is outlined in Figure 13 below.

Figure 13: Overarching Program - Intervention Framework



### 13.3. Recommended Interventions

In line with the framework above, we propose the following strategic interventions for a possible Phase II of BMMDP:

**Provision of Data and Market Insights:** Evidence-based insights and data on microinsurance markets is critically lacking in Bangladesh and is a major bottleneck in encouraging investment in the sector, and defining potential market size. A lack of data means that the product pricing remains subject to trial and error. Furthermore, it is difficult for insurance service providers and support system players to gather information on service availability and partnership potential that can foster collaboration between the different stakeholders in the microinsurance market system. There are data requirements for which there are not commercial service providers. For example data for specific insurance products such as weather data for crop insurance, and data needed for technology driven services such as cattle identification for livestock insurance. SFSA provides data to GDIC for claim settlement but this data is not made available for purchase on a commercial basis as it is funded by BMMDP. There is also the need for the provision of evidence-based data to support effective policy dialogue and unlock the influencing powers of key government officials. BMMDP can facilitate international agencies like GSMA, A2ii, and Microinsurance Centre to establish a Bangladesh digital data centre that can allow insurance service providers along with development partners to purchase market data and insights on demand. The seed investment for this could come through IDRA, MRA and other development partner microinsurance projects in Bangladesh i.e. the World Bank. This intervention is an essential foundational area that supports all the recommended interventions and hence could start in the remaining period of BMMDP Phase I.

**Development Partner Coordination and Sector Learning:** It would be critical to ensure development partner projects leverage their vast knowledge and resources of past and future investments. With SDC's global and

regional investment in microinsurance, SDC is well placed to lead development partner coordination and knowledge sharing. For any project engaging in a nascent and underdeveloped market with key bottlenecks at the level of the policy and regulatory environment, it is crucial that SDC as a bilateral partner can take on a proactive role, if not in terms of thematic leadership at least in terms of door opening and facilitation. This is a function which simply cannot be delegated out to an NGO management agent as they will never be perceived in the same way as Switzerland as the official bilateral development partner.

**Building a private sector led support service market for Insurtech:** This intervention should address the challenge of the lack of strong private sector led support services for insurtech that can catalyse the demand and supply side for microinsurance in Bangladesh. Bangladesh currently lacks local capacities and service providers to support and build technological microinsurance solutions. Technological solutions are key to not only improving the efficiency of the microinsurance sector but also in reducing the cost base making insurance more affordable for beneficiaries. To address this, BMMDP can partner with global service providers like Pula who in turn can partner with local organizations and insurance providers to develop local insurtech capacities. Technology areas could include cattle identification, weather data, and digital insurance policy administration. MFS integration for claim settlement provides a low hanging fruit opportunity that BMMDP can explore together with the leading bank and non-bank MFS providers in Bangladesh. The objective of this intervention would be to remove the entry barriers for local and international service providers enabling investment from microinsurance companies in product development and insurtech solutions.

**Innovative Product and Service Incubation:** The insurance service providers in Bangladesh have primarily responded to development partner funding opportunities for microinsurance. As such their products and value propositions are tailored to the need or mandate of the development partners rather than the beneficiaries or micro insurers. It is imperative that business incubation, product development, and market promotion activities are led by the microinsurance companies.

Building on lessons learned from BMMDP Phase I, the project could provide catalytic grants for critically lacking commercially driven support services (such as product development, information, actuarial skills etc) and product innovation. The intervention would leverage preliminary evidence presented in this report on prospective and untapped market opportunities, including potential microinsurance sub-sectors beyond crop and livestock. Diversifying the portfolio allows several trigger points to be accessed and an appropriate diversification of risks. There are also opportunities in both farm and off-farm sectors to trial microinsurance products that are easier to develop and ultimately less complicated for the beneficiary to understand. For example, FGDs with smallholder farmers highlighted potential demand for accidental death and injury of livestock from wild and stray animals. This potentially offers an easier entry point to build trust of the farmers who can later be served with more complex insurance products like index-based livestock insurance.

This investment could lead to more demand for professional service providers like actuaries, which eventually will foster supply of more skilled professionals in the market and also foster supply of skill development services for microinsurance professionals in Bangladesh. It will foster innovative partnerships between MFIs, insurance companies, mobile network operators, data service providers and other market actors who would be critical to distribution channel development, customer acquisition and resource management for commercially viable and market led microinsurance products in Bangladesh. This intervention could benefit from government backed smart incentives, for example, market development fund or impact fund that can be availed if targeted results are achieved.

**Microinsurance Policy:** Given the complexity of the relationship between IDRA and MRA, it would be important to initiate a high-level multi stakeholder task force under the auspices of the MOF to develop a microinsurance policy in Bangladesh and a roadmap for microinsurance market development. The task force should also include representation from the BB, MOA, MOFL, Ministry of Industries, Ministry of Disaster Management and Relief, Ministry of Telecommunications and Information as these ministries have direct incentives to promote

microinsurance to achieve their own targets related to inclusive growth, climate resilience and digital innovations. Data and insights from BMMDP’s other interventions can serve as evidence for the task force to get government buy in and inform and influence policy development. **The task force should also work on building microinsurance policies for the agriculture and livestock sector; facilitating VAT exemption - an existing BMMDP Phase I intervention; and advocating for smart incentives such as tax rebates for insurance companies achieving targeted coverage or investing in technologies for more efficient product development, distribution network development and claim settlement processes.**

**Institutional Capacity Development:** This intervention relates to the challenge of a poor meso level institutional network for microinsurance in Bangladesh. **To take the microinsurance sector forward meso level organizations, such as BIA and ABIA need to get stronger.** Meso level organizations can play a catalytic role in stimulating collaboration among the sectoral players through seminars and conferences, knowledge sharing events, training and workshop, data and insights. Microinsurance Network is an excellent example of a global meso level organization supporting the growth and evolution of the microinsurance sector. BMMDP can facilitate the development of meso level organization/s to lead the development of microinsurance in Bangladesh such as BIA and ABIA. Identifying change agents within BIA and ABIA who can push the agenda internally will be essential. High level national and international events, case studies, training and workshops, and a product development hackathon etc could provide a boost for capacity development for these agencies. This would eventually strengthen collaboration amongst all key insurance stakeholders. For this, the project can learn from the Exporter’s Forum under Bangladesh Furniture Industries’ Owner’s Association (BAFIOA), which was formed by the Katalyst project implemented by Swisscontact.

Note: It is proposed that private sector capacity development issues (e.g. lack of capacity of insurance companies to develop weather index-based insurance) are addressed under the other intervention areas 'building a private sector led support service market for insurtech' and 'product and service innovation and incubation'.

### 13.4. Intervention Matrix

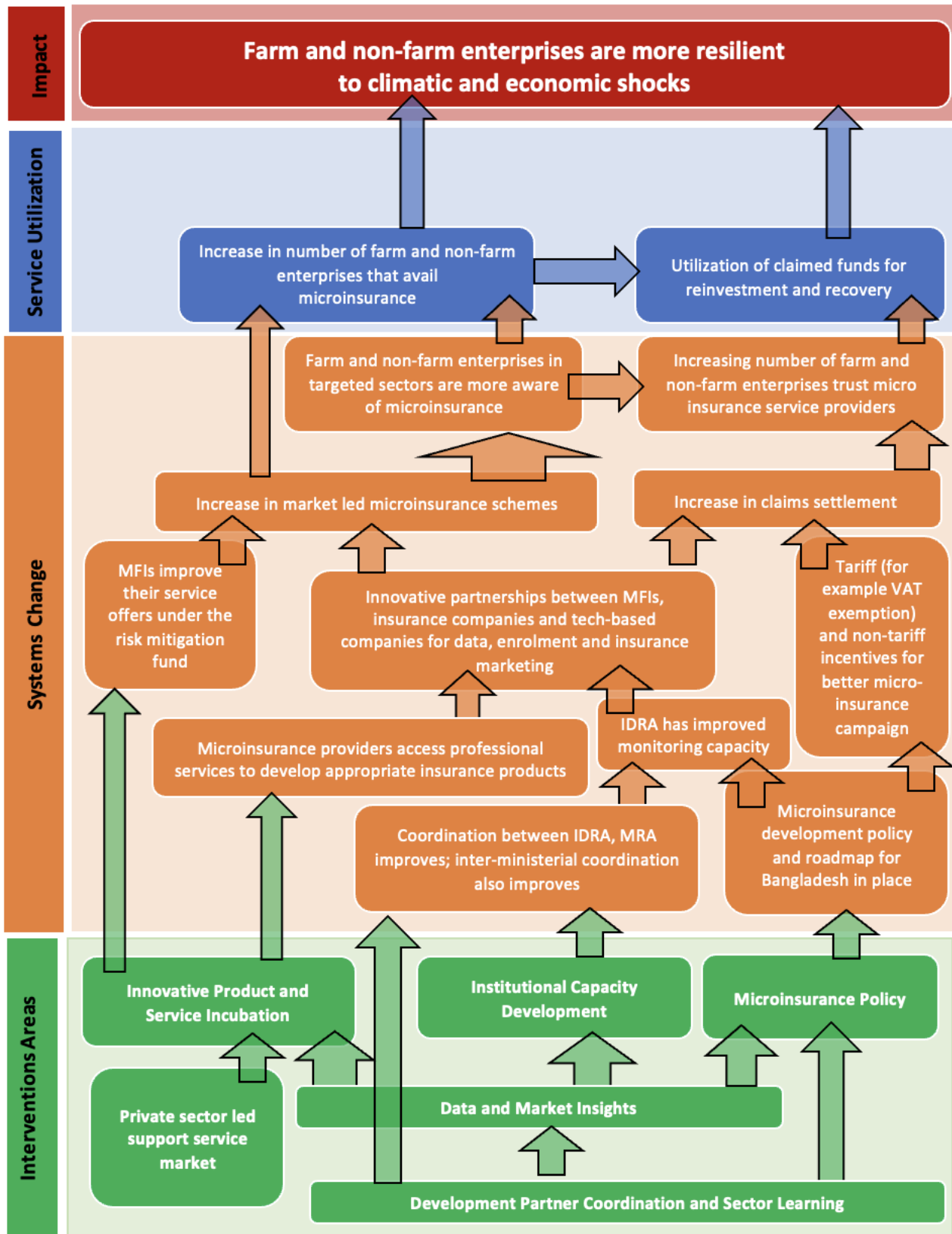
Table 2: Overview of Proposed Intervention Areas, Key Challenge Addressed and Potential Key Partners for Possible BMMDP Phase II

Proposed Intervention Areas	Key Challenge Addressed	Potential Partners/ Stakeholders
<p><b>Provision of Data and Market Insights</b> Improving the access and use of data and market insights for development of the microinsurance market</p>	<ul style="list-style-type: none"> <li>- There are no commercial providers of data that can be used to develop products</li> <li>- Products do not match the risk coverages that beneficiaries are looking for; the value proposition does not always meet the insurer’s requirements</li> <li>- Insurance companies not believing that microinsurance is profitable as seen many failed pilots and no government subsidies.</li> <li>- Development partner projects focus on what their priorities are without comprehensive demand and risk assessments.</li> <li>- Government not convinced of benefits of microinsurance – their need for economic and social impact data has not been fulfilled.</li> </ul>	<ul style="list-style-type: none"> <li>- IDRA</li> <li>- BIA</li> <li>- GSMA</li> <li>- Milliman Microinsurance Center</li> <li>- A2ii</li> <li>- Duke University - Fuqua School of Business: The Center for the Advancement of Social Entrepreneurship (CASE)</li> <li>- ILO’s Microinsurance Innovation Facility</li> <li>- Frankfurt School of Finance and Management</li> <li>- ABIA</li> <li>- Actuaries</li> <li>- International Actuarial Association</li> </ul>
<p><b>Building a Private Sector led Service Market for Insurtech</b></p>	<ul style="list-style-type: none"> <li>- There are no local commercial providers of data that can be used to develop products</li> </ul>	<ul style="list-style-type: none"> <li>- Pula</li> <li>- Banks / NBFIs</li> </ul>

<p>Private sector driven initiatives to develop technology supporting services for the microinsurance market</p>	<ul style="list-style-type: none"> <li>- Lack of local capacity to support and build digital microinsurance solutions to improve efficiency of product development and policy administration</li> <li>- There are no commercial providers of weather data, cattle identification systems and MFS for premium collection and settlement</li> </ul>	<ul style="list-style-type: none"> <li>- Fintech MFS providers e.g., Bkash, Rocket, SureCash etc.</li> <li>- Insurecow</li> <li>- Blue Marble</li> </ul>
<p><b>Innovative Product and Service Incubation</b> Private sector driven innovative initiatives to develop the core market (supply and demand) and critically lack supporting functions of the microinsurance market e.g., product development, information supply etc.</p>	<ul style="list-style-type: none"> <li>- Limited knowledge of the opportunities in sector beyond mainstream insurance products and crop subsectors</li> <li>- Low public awareness and knowledge of insurance due to lack of investment in marketing. Once funding period for pilot has finished, MFIs and ICs do not continue sales and marketing activities.</li> <li>- Products do not match the risk coverages that beneficiaries are looking for, the value proposition does not always meet the insurer’s requirements</li> <li>- There are no commercial providers of data that can be used to develop products.</li> <li>- ICs currently making sufficient profit from existing core market with little effort, lack incentive to expand.</li> <li>- ICs not believing that microinsurance is profitable as seen many failed pilots</li> <li>- No government incentives targeting microinsurance product innovation.</li> <li>- MFIs making sufficient revenue from credit-risk insurance and lack incentive to partner with insurance companies to develop new products for their clients.</li> <li>- ICs making sufficient profit from existing product and customer base and lack incentive to expand product range.</li> <li>- Development partners have distorted the market by being the main form of investment and subsidizing premiums and ICs’ operating costs.</li> </ul>	<ul style="list-style-type: none"> <li>- General insurance companies</li> <li>- MFIs</li> <li>- PKSf</li> <li>- Mobile Network Operators</li> <li>- Digital Financial Service Providers</li> <li>- Mobile Financial Service Providers</li> <li>- Telecommunication Value Added Service Providers</li> <li>- Mercy Corps Ventures</li> <li>- Blue Marble Ventures</li> <li>- ILO’s Microinsurance Innovation Facility</li> <li>- Insuresilience Investment Fund</li> <li>- Insurtech companies</li> <li>- Large corporate buyers of products produced by MSMEs and smallholders</li> </ul>
<p><b>Development Partner Coordination &amp; Sector Learning</b> Improving development partner coordination, development project outcomes, and the ability to influence policy dialogue</p>	<ul style="list-style-type: none"> <li>- Development partner projects focus on what their priorities are without comprehensive demand and risk assessments.</li> <li>- Failed and lack of sustainable development partner pilot projects have led to a lack of trust of insurance amongst beneficiaries and most insurance companies believing that microinsurance is not viable.</li> <li>- ICs and MFIs do not continue to invest in sales and marketing beyond the development partner period.</li> <li>- Poor advocacy and stewardship from development partner community</li> </ul>	<ul style="list-style-type: none"> <li>- SDC</li> <li>- WB</li> <li>- FCDO</li> <li>- ADB</li> <li>- IFC</li> <li>- Oxfam</li> <li>- International Development Fund (IDF)</li> </ul>
<p><b>Microinsurance Policy</b> Improving policy dialogue on the importance of developing a supportive regulatory framework for microinsurance and</p>	<ul style="list-style-type: none"> <li>- Absence of mechanism/s for inter-ministerial coordination and collective use of influencing powers.</li> <li>- Government not convinced of economic benefits of microinsurance which inhibits influencing power.</li> <li>- MRA (NGO’s / MFIs) not willing to share any of their existing market with insurance companies, hence no need to push for policy change</li> </ul>	<ul style="list-style-type: none"> <li>- MoF</li> <li>- IDRA</li> <li>- MRA</li> <li>- BB</li> <li>- National Board of Revenue (NBR)</li> <li>- MOA</li> <li>- MOFL</li> </ul>

<p>reinsurance. Also include support for specific microinsurance policies for agriculture and livestock sectors.</p>	<ul style="list-style-type: none"> <li>- BIA lacks the interest to advocate for microinsurance policy change in favour of its members. ICs not convinced of viability of microinsurance, and fear MFIs will take market share</li> <li>- IDRA believes in the need for developing microinsurance but is waiting for more support from insurance companies before acting.</li> <li>- IDRA not effectively advocating to insurance companies to garner support</li> <li>- Limited reinsurance capacity of SBC</li> </ul>	<ul style="list-style-type: none"> <li>- Ministry of Telecommunications and Information</li> <li>- Ministry of Disaster Management and Relief</li> <li>- Planning Commission</li> <li>- Economic Relations Division (ERD)</li> <li>- Ministry of Information and Communication Technology</li> <li>- National Board of Revenue (NBR)</li> <li>- International Development Fund (IDF)</li> <li>- GIZ funded international A2II program</li> </ul>
<p><b>Institutional Capacity Development:</b> Building capacity of meso level organizations to advocate, coordinate and collaborate, and deliver microinsurance skills development</p>	<ul style="list-style-type: none"> <li>- Poor advocacy and stewardship from BIA and its member insurance companies due to ICs not convinced of viability of microinsurance and fear MFIs will take market share</li> <li>- Weak capacity of BIA to advocate on behalf of insurance companies (members)</li> <li>- Weak capacity of ABIA to train professionals for microinsurance.</li> <li>- BIA and BIF are pro microinsurance but not for involvement of MFIs and hence are not advocating for harmonisation of regulation.</li> <li>- IDRA's desire to harmonize regulations constrained by powerful voices of BIA and BIF.</li> </ul>	<ul style="list-style-type: none"> <li>- BIA</li> <li>- ABIA</li> <li>- IDRA</li> <li>- The World Bank (leverage existing program)</li> <li>- Microinsurance Network</li> <li>- International Development Fund (IDF)</li> </ul>

13.5. Theory of Change



## 14. Conclusions

**A broad range of global evidence shows that microinsurance can foster economic resilience of smallholder farmers and MSMEs.**<sup>159</sup> The data presented in this study shows that beyond the MFI led credit risk microinsurance schemes, **most of the farm (smallholder) and non-farm enterprises (MSMES) remain outside the purview of insurance in Bangladesh.** Most of these smallholders and MSMEs are cash starved, unbanked and are dependent on income that is frequently affected by climate and economic shocks. The COVID-19 pandemic has pushed an estimated 32 million extra people into poverty.<sup>160</sup> As Bangladesh moves towards recovery, and to maximise the impact of the GOB's economic stimulus packages for agriculture and MSMEs, providing risk mitigation strategies to assist insulate enterprises from future shocks is critical.

**Microinsurance can play a catalytic role by stimulating sustainable and inclusive growth across multiple economic sectors.** Global evidence shows that microinsurance has a role to play in providing multiplier effects on the social and economic fabric of an economy. For example, microinsurance for Kenyan farmers resulted in increased investments in livestock veterinary and vaccination services in non-drought areas leading to productivity improvements.<sup>161</sup> GIZ's global study on SMEs from Pakistan, Kenya, Philippines, and Peru shows that microinsurance can influence an entrepreneur's investment behaviour by encouraging them to invest in higher risk activities, with higher expected returns, leading to potential growth in the business and sector.<sup>162</sup> It can also increase the credit worthiness of SMEs, assist in achieving a country's financial inclusion goals, and free up SMEs' funds for productive investment in better technologies, product innovation, and ultimately income generating activities.

**Increased microinsurance penetration has the potential to significantly reduce the disaster recovery burden on the Government of Bangladesh assisting the country achieve its 8<sup>th</sup> Five Year Plan objectives and Sustainable Development Goals (SDGs).** A broad range of global evidence shows that wider penetration of microinsurance has the potential to:<sup>163</sup>

- Reduce the burden on GOB budgets e.g. **Global evidence has shown that a 1% increase in insurance penetration can reduce the burden on taxpayers by up to 22%.**<sup>164</sup>
- Increase contribution of microinsurance to the GDP of Bangladesh
- Increase overall insurance coverage and penetration rate in Bangladesh
- Improve credit worthiness of small enterprises by reducing their exposure to risks
- Improve investment, and therefore create more jobs, across the value chains
- Enhance climate resilience as farm and non-farm enterprises gain access to critical ancillary services (for example weather data, early warning etc.) through the microinsurance market system
- Empower women in farm and non-farm enterprises: evidence from the FGDs in this study showed that women-led enterprises are more likely to adopt microinsurance
- Attract more investment for machinery and infrastructure as enterprises become less risk exposed

**Significant opportunities exist to tap demand from farm and non-farm enterprises, where their priority risks are currently not being met, and in sub-sectors such as LE, mango, furniture and retail.**

<sup>159</sup> Results from this Microinsurance Market Systems Analysis; GIZ. 2019. Insurance for Micro, Small and Medium Enterprise Development. Inclusive Insurance Fact Sheet Series; and Care International. 2019. Insuring for a Changing Climate: A review and reflection on CARE's experience with microinsurance.

<sup>160</sup> BRAC. 2021. Bangladesh Multiple Phase Livelihood Survey – Impacts of COVID.

<sup>161</sup> Care International. 2019. Insuring for a Changing Climate: A review and reflection on CARE's experience with microinsurance.

<sup>162</sup> GIZ. 2019. Insurance for Micro, Small and Medium Enterprise Development. Inclusive Insurance Fact Sheet Series.

<sup>163</sup> GIZ. 2019. Insurance for Micro, Small and Medium Enterprise Development. Inclusive Insurance Fact Sheet Series; and Care International. 2019. Insuring for a Changing Climate: A review and reflection on CARE's experience with microinsurance.

<sup>164</sup> International Development Forum, 2016.

**There are existing trusted and efficient distribution networks that can be leveraged to help unlock this demand.** The 842 MFIs in Bangladesh have an unparalleled position to significantly grow the microinsurance market due to their extensive networks amongst low-income households and excellent levels of trust amongst beneficiaries compared to ICs. International experience and early evidence from BMMDP Phase I shows that beyond MFIs, there are other emerging distribution networks in Bangladesh that can be leveraged, for example bancassurance, industry associations, cooperatives, agri input businesses, farmer hubs, and other sector specific specialists such as vets.

**However, despite this significant potential, the microinsurance sector in Bangladesh is a challenging and nascent market.** Demand is currently low due to low awareness, a lack of trust and the absence of demand driven risk products. **The supply side is being driven by MFI-led mandatory credit risk products and development partner interest, rather than market needs.** Whilst development partners have tested the case for usage amongst target groups via ICs, they have contributed to distorting the market by subsidizing microinsurance premiums and operating costs of insurers. They have also not successfully addressed the underlying causes of the market’s systemic constraints. Conflicts between key market actors, and an absence of cohesive coordination and collaboration, has resulted in little or no improvement in the regulatory environment. Many of these challenges can be resolved with the right approach, however they will take time to resolve.

**For the Bangladesh microinsurance market system to evolve and deliver economic and social benefits to low-income and vulnerable households the systemic constraints must be addressed.**

- Weak regulatory environment - absence of a unified definition of microinsurance and inclusion in key government regulations that permit best practices in the development and implementation of microinsurance
- Products that are supply driven, built on donor interest, and do not meet the priority risk needs smallholder farmers and MSMEs
- Lack of professional microinsurance skills and infrastructure to assess, develop, price, market, sell, administer, and pay claims rapidly - providing value to the client.
- Lack of commercially driven local support services (information providers, technology support services (insurtech), product development, data and insights etc) that prevent ICs to develop, market and administer microinsurance products efficiently and based on customer demand.

**Unlocking the sectors’ potential will require a market development program where interventions address multiple key challenges and their systemic constraints.** BMMDP’s role in evolving the microinsurance market system will require designing interventions that trigger different areas within the market system.

Intervention Area	Key Challenge Addressed
Provision of Data and Market Insights	<ul style="list-style-type: none"> <li>- Weak regulatory environment</li> <li>- Products are supply driven</li> <li>- Lack of product development by MFIs and ICs</li> <li>- Lack of private sector led support service market i.e. no commercial providers of data to support product development</li> <li>- Absence of inter-ministerial coordination and buy-in</li> </ul>
Development Partner Coordination and Sector Learning	<ul style="list-style-type: none"> <li>- Weak regulatory environment</li> <li>- Absence of inter-ministerial coordination and buy-in</li> <li>- Lack of effective advocacy</li> <li>- Products are supply driven</li> </ul>
Building a Private Sector Led Service Market for Insurtech	<ul style="list-style-type: none"> <li>- Products are supply driven</li> <li>- Lack of product development by MFIs and ICs</li> <li>- Lack of data and insights to develop products</li> </ul>
Innovative Product and Service Incubation	<ul style="list-style-type: none"> <li>- Products are supply driven</li> <li>- Lack of innovative partnerships</li> </ul>

	<ul style="list-style-type: none"> <li>- Lack of product development by MFIs and ICs</li> <li>- Lack of private sector led support service market</li> <li>- Lack of data and insights to develop products</li> <li>- Lack of professional microinsurance skills and infrastructure</li> <li>- Poor and inconsistent communication and awareness raising of microinsurance</li> </ul>
Microinsurance Policy	<ul style="list-style-type: none"> <li>- Weak regulatory environment</li> <li>- Absence of inter-ministerial coordination and buy-in</li> <li>- Lack of effective advocacy</li> </ul>
Institutional Capacity Development	<ul style="list-style-type: none"> <li>- Weak regulatory environment</li> <li>- Lack of effective coordination and advocacy</li> <li>- Lack of professional microinsurance skills</li> </ul>

**Combined these interventions provide new opportunities for BMMDP to create systemic change in the microinsurance sector that to date have not been addressed.**

- **There is a clear opportunity for a phase II designed on market systems development principles and incentives.** Investments from development partner projects (other than components of BMMDP Phase I) have not taken a market systems development (MSD) approach, nor addressed key systemic constraints of the microinsurance market.
- **Taking the role of neutral facilitator** is a key part of an MSD approach. This will assist BMMDP avoid being engaged in any conflict of interest, either institutional or as an actor in the microinsurance market.
- **The availability of improved data and insights to drive evidence-based decision making** for BMMDP and for all actors in the microinsurance market will not only fill the existing void but could unlock support for the microinsurance sector from key stakeholders.
- **Smaller scale innovative pilots that are built on best practice for deal making according to MSD principles** e.g., commercially driven partnership agreements, rather than solely on donor interest will avoid entering unsustainable activities.
- **Having a diversified sector portfolio to bring new evidence.** This MMSA has identified non-farm sectors with easier entry points, than agriculture, for developing microinsurance products. Diversifying the portfolio allows several trigger points to be accessed and an appropriate diversification of risks.
- Whilst previous projects have included some advocacy activities, these have been adhoc. Having a **dedicated intervention to policy dialogue** will bring structure, purpose and consistency to the advocacy the process and ultimately influence the enabling environment. Having the **right implementation team** who can engage at policy level convening different interests will be advantageous to BMMDP. Securing the opportunity for SDC in Bangladesh to play a proactive role influencing policy dialogue is key.
- **Further leveraging the comparative advantage of SDC and Swisscontact's expertise** in microinsurance and market systems development globally and regionally to maximise effectiveness and impact of microinsurance interventions in Bangladesh.

**Despite the opportunities, investing in the microinsurance sector comes with a substantial degree of risk, that if identified early can be managed.** High political and governance risk evidenced by the lack of progress on developing and approving necessary insurance reforms and more specifically a microinsurance regulation. Building a body of evidence-based data, improving multi-stakeholder collaboration and coordination and having a team with the right policy advocacy skills will help to reduce the associated political and governance risks. The presence of the WB project will also assist address any of these risks. Implementation and sustainability risks exist based on evidence of failed pilot projects, and the lack of capacity and low skills levels of the microinsurance actors in Bangladesh. Improved donor coordination leveraging knowledge from previous and current microinsurance projects, in Bangladesh and internationally, supported by evidence-based data will assist

interventions focus on priority opportunities of the beneficiaries and other actors. The right implementation team and project structure will also assist mitigate these risks.

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## Annexes (Part A)

### Annex 1: Key Global Microinsurance Insights

- **Many insurers continue to offer the same kinds of microinsurance products that have existed in the market for a long time.** These are often not based on a deep understanding of customers, and continue to contain features like inappropriate exclusions.<sup>165</sup>
- **Regulation has become less of a constraint as regulators become supportive of microinsurance.** In those countries where regulatory constraints persist the key issues are: time taken to approve a new product; constraints in introducing seamless digital processes, for example, where electronic signatures are not accepted and a physical (“wet”) signature is required; restrictions on the use of certain distribution channels; inappropriate distribution channel requirements; such as agent training requirements that are not appropriate for microinsurance; limitations on bundling financial and non-financial products; lack of accessibility and openness of regulators; and inability of regulators to keep pace with financial technology developments.
- **Index insurance is currently commanding particular attention.** Although it has been around for some time, regulators are paying closer attention to protect customers of index products and are including definitions in insurance regulation.
- **Life and credit life products continue to dominate the market.** Personal accident and funeral products also play an important role, while low-cost, non-comprehensive health products, particularly hospital cash products, have consolidated over recent years as another key microinsurance offering.
- **Insurers are strengthening their links with health services, either through their own offerings or by partnering with companies offering health services.** Other products are bundled with non-insurance health services, including telehealth services.
- **Crop and livestock insurance** have grown dramatically in some countries where there is government support and subsidies. However, schemes without government support have largely not achieved scale. Partly as a result, there has been a shift from individual micro agriculture products to meso or macro coverage, which is seen by many insurers as more feasible.
- **Climate and natural disaster insurance.** There is increasing recognition that climate and natural disaster risks do not only affect agriculture, but have an impact on a wide range of people and economic activity. As a result, index and natural disaster insurance is increasingly being used to protect livelihoods outside of agriculture. The InsuResilience Global Partnership has set an ambition for 150 million people to be covered against climate-related disasters through microinsurance by 2025.
- **Insurance for small and medium-sized enterprises (SMEs).** To date, microinsurance has largely focused on households, micro-businesses and smallholder farmers. There has recently been a shift in focus, particularly among development partners, towards the need for insurance for SMEs. While SME insurance remains rare, more companies are beginning to pilot such products.
- **Small-ticket and short-duration products.** An emerging trend in insurance is a shift towards small-ticket and short-duration products, such as accident insurance purchased with a transit ticket to cover the risk during that journey only. When designed for low-income customers they represent a promising development in microinsurance.

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<sup>165</sup> Microinsurance Network. 2020. The Landscape of Microinsurance.

## Annex 2: Understanding Current Demand Needs & Behaviours – Smallholder Farmers

This Annex presents insights on two market segments that represent current demand – smallholder crop and livestock farmers. Whilst insights are presented separately for each segment in Bangladesh many smallholder farmers have both crops and livestock as part of their enterprise.

Findings in this section are from FGDs conducted for the purpose of this MMSA in Nilphamari, Rangpur and Dinajpur districts in February 2022. Participant numbers were not statistically relevant hence the insights and findings should be treated as such.

### Smallholder Crop Farmers

#### *Relevance and Needs Assessment*

Erratic behaviours of weather such as, untimely or sudden flood, heavy rains, temperature fluctuations, hail storms, foggy weather and infestations of diseases etc., are the major risks faced by the smallholder farmers.<sup>166</sup> Aman and Boro rice are affected by the fungal disease rice blast, potatoes by late blight, stem rot, wilt, mosaic virus, moisture stress due to untimely raining and heavy rains causes rotting of plants.

Farmers suffer from partial losses and sometimes full. Most losses are experienced in production of rice, wheat and potatoes and losses are usually above 90% of production. One of the most obvious fallouts of climate change is the gradual drifting of rain-fed rice season (Aman rice) due to drought and delayed monsoon. The infestation of blast in rice, fall armyworm in maize, late blight (phytophthora) in potato leads to severe crop damages and are increasing risks faced by farmers due to climate change impacts.

Farmers also experience significant price fluctuations often receiving lower prices for crops than expected. This is often the result of significant gaps in forecasting of supply and demand. A lack of infrastructure to accurately project seasonal supply and demand figures in advance results in significant gaps in forecasting.<sup>167</sup> Farmers lack the knowledge or access to market information to inform them which crop they should produce to meet demand. This leads to surplus supply of crops, with market prices dropping.

Crop farmers cited demand for microinsurance in the following crops: mango, horticulture, floriculture, banana, papaya, potato, Haor-Based Boro Rice.

#### *Acceptance and Usage*

- **Farmers are extremely familiar with micro credit however do not understand the difference between micro credit and microinsurance.** The lack of understanding about the difference between credit and insurance is due to poor financial literacy levels.
- **Approximately 90% to 95% of farmers take loans from MFI's reinforcing that MFIs are critical in the distribution of microinsurance products.** Crop farmers usually take loans twice a year corresponding with crop seasons with 90% to 95% taking loans from their local NGO/MFI such as BRAC, Asha, Proshika & Grameen Bank etc. Less than 5% take loans from banks and less than 5% do not take any loans at all throughout the year. Such a high percentage of loans is due to small and marginal farmers inability to accrue savings due to limited income sources.

<sup>166</sup> Feedback from FGDs conducted for the purpose of this Market Systems Analysis in Nilphamari, Rangpur and Dinajpur districts in February 2022.

<sup>167</sup> KIIs with DAE & DAM, February 2022.

- **Farmers are initially interested in the concept of microinsurance however have significant levels of ‘fear’ based on the negative perception of ‘insurance’.** For example, farmers who have had experience with microinsurance via the SDC funded BMMDP project indicated that whilst they were initially motivated about the scope and benefits of WIBCI, the term ‘insurance’ triggered fear in them due to several previous incidents of fraud with life insurance products. Many believe that once they have paid the premium, the insurer will flee with the money, and in the event of crop loss, claims will not be honoured. This reinforces the need to communicate positive endorsement and experiences of other farmers.
- **Most farmers believe that all agricultural crops are equally vulnerable to the risks of climate change, and hence would like to see a broader range of crops covered by crop microinsurance.** For example, farmers in the BMMDP project who have taken crop microinsurance are now requesting more types of crops to be included beyond rice (Aman and Boro), maize and potato are interested in crop microinsurance for mustard, banana, mango and lichee.
- **The value proposition of the microinsurance product is important for farmers.** However, currently the value proposition to farmers for WIBCI in Bangladesh is very weak. For example, the current WIBCI products do not cover the most sought-after perils such as damage from hail storm. They also do not cover crops damaged (yield loss) from non-weather factors such as pests and diseases
- **Most farmers do not understand the ‘value proposition’ of the crop microinsurance products offered.** Distributors need to improve their communication messages, their frequency and the tools from which they communicate. Even if a microinsurance product has been developed based on the farmer’s risk needs unless the distributors clearly communicate the ‘value / benefit’ being offered, farmers will continue not understanding what the individual product offers.
- **Understanding farmer’s risk needs prior to developing products will result in an improved value proposition.** For example, the BMMDP are currently providing WIBCI for crops but also including coverage for the cost of agro inputs. The premium is very low ranging from less than US\$1 to US\$5, and the pay-out ranges from US\$2 to US\$10. This also reduces the complexity of product development.

**Women farmers are more concerned about climate change compared to men.** Key informant interviews for this study found that women mostly rely on small-scale agriculture, cattle, poultry rearing, and post-harvest handling activities of different crops grown for their livelihood. Compared to men, women farmers are more concerned about their vulnerability from the negative impacts of climate change on their crops. This suggests they may be more receptive to crop microinsurance compared to men. However, due to gender norms their decision-making ability in the family is weaker. This needs to be addressed if women are to be made the change agents for crop microinsurance.

Source: Female participants of FGDs, February 2022.

- **Farmers who have had good experiences (ease of claims, pay-outs and with speed) with crop microinsurance will purchase policies again and potentially expand the number of crops insured.**
- **Farmers obtain weather information and crop loss mitigation advice from a variety of sources; some are more trusted than others.**

- Farmers increasingly trust and rely on **Outbound Dial (OBD) systems** for weather forecasts and early warnings of weather. This information is critical in planning a farmers day to day cropping activities.
- **Local Department of Agricultural Extension (DAE) office**, particularly the local Sub Assistant Agricultural Officer (SAAO), and **NGO's** are also trusted as they are seen as 'adding value' educating farmers on advances in technology which can improving their productivity.
- Farmers do not trust **agri-input dealers** for weather information. They think: their information is not up to date and often incorrect; and they do not use the latest technology to provide relevant and real-time climate information. Farmers will only rely on agri-input dealers for information if they are unable to get support from OBD, DAE and related extension officers.

## Smallholder Livestock Farmers

### *Relevance and Needs Assessment*

- **Despite most risk mitigation services covering livestock death, services for milk production loss, pregnant cows miscarriage i.e., loss of unborn calves, and the cost of medication are what is most needed.** Livestock farmers face multiple risks when rearing their animals for production purposes or to sell. Risks that cause loss of productivity result in significant financial loss and stress on farmers. Poor animal health is more common than death and as such the cost of treating sick animals requires significant financial outlay.
- **A study on production and quality of milk in Bangladesh observed that the lowest milk production was obtained during winter due to variations in milk secretion stimulation by the green fodder fed to cattle.<sup>168</sup> As a result livestock farmers often resort to 'distress selling' to avoid this productivity loss.**
- **Severe floods can cause a scarcity of animal food which also leads to farmers 'distress selling' their livestock**, particularly cattle and goats, earlier than expected and for a lower price.
- **Farmers believe that the risks of cattle and goat rearing are far greater than ducks and chickens.**

### Overview of risks:

- **Dairy and Beef Cattle:** The most common diseases are hoof disease, rabies and lumpy skin disease. These cause significant productivity losses rather than death. Other risks in some locations include new born calves being attacked by wild dogs which does cause death. Coverage for cattle disability, theft, milk production loss, pregnant cows miscarriage i.e., loss of unborn calves, and the cost of medication are in more demand than death of the cow.
- **Goats:** Peste des petits ruminants, also known as 'goat plague', is severe, lack of feed from floods, and in some locations attacks from wild dogs.
- **Duck, chickens & fowl:** Rubula virus and duck plague and in some locations attacks from wild dogs.

### *Acceptance and Usage*

<sup>168</sup> Zaman, M., Ara, A., & Haque, M. 2017. Effect of season on production and quality of milk of crossbred dairy cows at Sylhet district government dairy farm in Bangladesh. Bangladesh Journal of Animal Science, 45(3), 52–57. Retrieved from: <https://www.banglajol.info/index.php/BJAS/article/view/31046>

- **MFIs are the most trusted and used financial service provider for livestock farmers reinforcing that MFIs are critical in the distribution of microinsurance products.** Approximately 80% to 90% of livestock farmers use MFIs for either savings or loans. Around 60-70% have loans, and almost 100% have savings in MFIs. Popular MFIs are ASA, Grameen Bank, Brac, TMSS, Uddipon and ESDO. Participants save in MFIs in the form of Deposit Pension Scheme, monthly deposits, short- and long-term deposits. Livestock farmers are more likely to use the well-known larger MFIs because of reliability, easy access to loans, and comparatively quick encashment in emergencies. Less than 5% of livestock farmers take loans from banks, these farmers tend to be more literate than those that use MFIs or informal sources. The low reliance on banks is predominantly due to the complex paperwork, inadequate collateral to meet the bank's needs, longer loan processing time, and underpayment against requirements. The small number of farmers who are availing formal banking services identified Islami Bank Ltd, Dutch Bangla Bank, and Krishi Bank as the major banking service providers.
- **Around 40% of MFI clients invest their microcredit in livestock rearing, with beef cattle fattening one of the most preferred investment choices of microcredit borrowers.**<sup>169</sup>
- **Farmers invest in livestock as a form of savings as they consider it as an instant source of cash in the event of any shock that causes financial stress.**
- **Insurance embedded in the livestock loans can specifically protect women from the risk of indebtedness.** Livestock loans are often issued in the woman's name, however the proceeds from the sale of the livestock benefit the whole household not just the woman, leaving them to pay off the remaining loan.
- **The option to pay an additional 0.30% on the loan amount to provide coverage for the loan taker and their spouse, has been a key motivating factor influencing the livestock farmers decision to purchase Livestock Risk Mitigation Services under the BMMDP project.**
- **Livestock farmers' interest in engaging in livestock risk mitigation services is dependent on trust levels of the provider.** Most farmers do not trust ICs and their services, however, do trust their local MFI. This emphasises the importance of MFIs in the sales and marketing of microinsurance products.
- **Literacy amongst livestock farmers is low with no significant difference between men and women.** Only 40% to 50% of the BMMDP Livestock Risk Mitigation Service participants have sufficient literacy to manage the application documentation by themselves. The balance requires assistance from MFI field staff.
- **Livestock farmers lack awareness and understanding of the terms and conditions of Livestock Risk Mitigation Services.**
- **The value proposition of the microinsurance product is important for farmers.** However, currently the value proposition to livestock farmers in Bangladesh is very weak. For example, livestock risk mitigation service covers death, permanent disability and theft however the incidence of these is extremely low. Most livestock farmers have more need coverage of animal health related products, particularly in the winter and also for accidental death and injury from wild and stray animals.

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<sup>169</sup> PKSF, August 2021.

- **Livestock farmers are interested in other microinsurance products** such as fisheries, poultry (duck and chicken) and crops (paddy, maize, potato, mustard) provided that the insurer is reliable.
- **MFIs are the key source of sales and marketing information on insurance schemes for livestock farmers.** Currently those livestock farmers engaged in the BMMDP pilots are only aware of one insurance product in the market i.e. PKSF's Livestock Risk Mitigation Services
- **Women are a potential target market for microinsurance sales and marketing activities.** Women are more engaged in livestock rearing practices than the men. Although the decision to invest in insurance is primarily taken by the men or the head of the household, women also participate in the decision-making process. Therefore, the women could be targeted for promotion of microinsurance products.

### Annex 3: Understanding Current Demand Needs & Behaviours – MSMEs

#### SMEs

In Bangladesh an SME is defined as either a manufacturing or service enterprise that invests between US\$11,623 and US\$3 million and employees 16 to 300 people.<sup>170</sup>

#### *Relevance and Needs Assessment*

- **SMEs are more vulnerable to natural disasters and other extreme weather events compared to larger enterprises as they are usually located in sub-optimal, weather exposed areas (cheaper real estate).**<sup>171</sup> The impacts of natural disasters on SMEs includes damaged goods, disrupted supply chains and distribution channels, etc. Roads and other means of communication are often damaged causing transport and communication challenges.
- **Extreme weather events can force almost 50% of SMEs to stop their business because key inputs are not available and/or product cannot be sold during or after the event.** This results in incomes falling by 28% for over 50% of enterprises.<sup>172</sup> In some cases, SMEs are forced to permanently close their business as they do not have the financial resources to carry forward the loss caused. Whilst number of SMEs impacted by extreme weather events does not exist in Bangladesh what is known is that over the past decade nearly 700,000 people are displaced each year by natural disasters.
- **Other risks face by SMEs include fire hazards, work related accidents impacting employees, and machinery break downs impacting productivity.**<sup>173</sup>
- **SMEs in Bangladesh are constrained by many factors impacting their ability to respond and recover from these risks.** These include limited access to finance, lack of capital, low levels of skilled manpower, poor training facilities, access to sales channels and low levels of financial inclusion.<sup>174</sup> Furthermore, SMEs lack knowledge and access to technology, hence operate their

<sup>170</sup> Government of Bangladesh. 2016. National Industrial Policy, 2016.

<sup>171</sup> Sharif M. B. A., et al. 2021. The Impact of Natural Disasters on Small and Medium Enterprises (SME) in Bangladesh. Accessed via: <https://www.scirp.org/journal/paperinformation.aspx?paperid=110285>

<sup>172</sup> Webb G. R., et al. 2002. Predicting long-term business recovery from disaster: a comparison of the Loma Prieta earthquake and Hurricane Andrew. Accessed via: [https://doi.org/10.1016/S1464-2867\(03\)00005-6](https://doi.org/10.1016/S1464-2867(03)00005-6)

<sup>173</sup> GIZ. 2019. Insurance for Micro, Small and Medium Enterprise Development. Inclusive Insurance Fact Sheet Series. Accessed via: [https://www.giz.de/fachexpertise/downloads/giz2019-en-factsheet\\_insurance\\_msme.pdf](https://www.giz.de/fachexpertise/downloads/giz2019-en-factsheet_insurance_msme.pdf)

<sup>174</sup> Rahman S., et al. 2019. Problems SMEs face in Bangladesh. Accessed via: <https://www.thedailystar.net/business/news/problems-smes-face-bangladesh-1768354>

business with old and outdated equipment that often breakdowns contributing to productivity, and income loss.

- **Microinsurance can influence an entrepreneur's investment behaviour by encouraging them to invest in higher risk activities with higher expected returns.**<sup>175</sup> For example, they may buy a machine to scale up production processes if at least some risks associated with this investment are covered by insurance.
- **Microinsurance can increase the credit worthiness of SMEs**, enabling them to access formal credit as they can prove that the owner and the assets are protected. As such, the presence of microinsurance can increase financial institutions' willingness to lend to SMEs, or even lower collateral requirements.
- **The following microinsurance needs have been identified for SMEs**, and if provided could not only act as excellent risk mitigation but also increase the confidence of business owners to invest more. Further in-depth risk and needs assessments are needed to understand behaviour and action towards risk mitigations strategies for SMEs.
  - **Life insurance** as the death of the worker puts the whole family at risk.
  - **Accident insurance** as it is common for minor and major accidents to occur during operations, and it could have a life-long impact on the worker or business owner.
  - **Flood and fire insurance** which destroy valuable inventory as well as other productivity assets such as machines, equipment, transport, property etc.
  - **Group insurance** for larger small and medium enterprises with multiple types of insurance bundled together targeting employees e.g., life, accident, health and pension can act as an all-in-one solution for workers.
  - **Theft insurance**
  - **Business liability insurance and business interruption insurance**
  - **Damage or loss of machinery or tools**

### Microenterprises (MEs)

A microenterprise (ME) includes both cottage and micro enterprises and is defined as an enterprise that invests between less than US\$11,623 and employees less than 30 people.<sup>176</sup>

#### Relevance and Needs Assessment

- Whilst the relevance and needs of MEs reflect many of those listed for SMEs (refer above), MEs microinsurance needs are centred more on personal risks.
- MEs do not distinguish between household and business finances and assets therefore microinsurance products need to take this into account.
- Risks they face are similar to SMEs however MEs have far less financial security to be able to mitigate these risks, making them more vulnerable.

Microenterprise potential microinsurance needs:

- **Life, accident and health** of owner and family members
- **Multi-risk coverage** in one policy for business assets: stock and premises

<sup>175</sup> GIZ. 2019. Insurance for Micro, Small and Medium Enterprise Development. Inclusive Insurance Fact Sheet Series. Accessed via: [https://www.giz.de/fachexpertise/downloads/giz2019-en-factsheet\\_insurance\\_msme.pdf](https://www.giz.de/fachexpertise/downloads/giz2019-en-factsheet_insurance_msme.pdf)

<sup>176</sup> Government of Bangladesh. 2016. National Industrial Policy, 2016.

Annex 4: Overview of Insurance Needs & Insights of Key Microinsurance Market Segments

Segment / Sector	Risks	Microinsurance Products with Potential Demand	Key Insights	Best Communication Medium
<b>Crop</b>	<ul style="list-style-type: none"> <li>-Natural disasters</li> <li>-Diseases like blights, late blight/stem rot/wilt/mosaic virus</li> <li>-Delayed monsoon and moisture pressure due to climate change</li> </ul>	<ul style="list-style-type: none"> <li>-Index based Crop Microinsurance for:                             <ul style="list-style-type: none"> <li>-Mango</li> <li>-Perishable products in horticulture</li> <li>-Floriculture</li> <li>-Papaya</li> <li>-Potato</li> <li>-Haor based Boro rice</li> </ul> </li> <li>Other crop insurance based on yield loss, price and other risk coverage associated with diseases etc.</li> </ul>	<ul style="list-style-type: none"> <li>-Lack of awareness about financial products</li> <li>-Negative image of insurance exists</li> <li>-Trust of farmers in the insurance providers is vital in determining success of such programs</li> <li>-Faster claim pay-out helps build trust</li> </ul>	<ul style="list-style-type: none"> <li>-Word of mouth from peers</li> <li>- SMS OBD weather forecasts</li> <li>-Local MFIs and field staff who have already been contact with them for providing credit</li> <li>-Television programs, bioscope (visual content)</li> </ul>
<b>Livestock</b>	<ul style="list-style-type: none"> <li>-Cattle diseases like hoof disease, rabies and lumpy skin</li> <li>-Livestock illness</li> <li>-Milk production loss</li> <li>-Miscarriage of pregnant cows</li> <li>-Lack of animal food during natural disasters</li> <li>-Natural disasters</li> </ul>	<ul style="list-style-type: none"> <li>-Disaster risk insurance (specifically cattle and goat)</li> <li>- Insurance for theft</li> <li>-Insurance against accidental injury</li> </ul>	<ul style="list-style-type: none"> <li>- Cattle death did not occur when insurance was provided so farmers felt the premium, they paid was for nothing</li> <li>-Literacy rate of women higher than men</li> <li>-Mobile banking is preferred</li> <li>-Red tape is not appreciated and a core reason behind farmers not availing insurance service</li> </ul>	<ul style="list-style-type: none"> <li>-Video content like bioscope, television content</li> <li>-Word of mouth from peers</li> <li>-Roadshows to increase awareness</li> <li>-SMS OBD weather forecast</li> </ul>
<b>SMEs</b>	<ul style="list-style-type: none"> <li>-Damaged goods</li> <li>-Troubles in supply and distribution channels</li> <li>-Machine breakdowns</li> <li>-Fire</li> <li>-Accidents</li> </ul>	<ul style="list-style-type: none"> <li>-Life, accident, health insurances</li> <li>-Flood and fire incident</li> <li>-Machinery, robbery, cash in premises, electronic and mobile devices and technology</li> <li>-Business liability insurance and business interruption insurance</li> </ul>	<ul style="list-style-type: none"> <li>-Lack of awareness exists</li> <li>-MFIs and NGOs are preferred</li> <li>-Paperwork and red tape are not appreciated</li> </ul>	<ul style="list-style-type: none"> <li>-Mobile calls, SMS</li> <li>-Television,</li> <li>-Word of mouth from peers, distributors, suppliers, NGOs and MFIs</li> </ul>
<b>MEs</b>	<ul style="list-style-type: none"> <li>-Damaged goods</li> <li>-Troubles in supply and distribution channels</li> <li>-Machine breakdowns</li> <li>-Fire</li> <li>-Accidents</li> </ul>	<ul style="list-style-type: none"> <li>-Life, accident and health of owner and family members</li> <li>-Multi-risk coverage in one policy for business assets: stock and premises</li> </ul>	<ul style="list-style-type: none"> <li>-Lack of awareness exists</li> <li>-MFIs and NGOs are preferred</li> </ul>	<ul style="list-style-type: none"> <li>-Mobile calls, SMS</li> <li>-Word of mouth from peers, distributors, suppliers, NGOs and MFIs</li> </ul>

## Annex 5: Insights on MFI's as Providers of Microinsurance in Bangladesh

**Key Insights:**

- The most popular product is crop loan insurance accounting for approximately 97% of the Client Welfare Fund and attributed to the fact that all loan related insurance offered by MFIs is mandatory.
- Members pay a percentage 'the premium' of the total loan, with the term of the policy equivalent to the term of the loan. Some MFIs also charge a percentage of the total savings of the individual member of the MFI.
- Whilst most premiums are fixed, in the absence of regulatory guidelines approximately one third of MFIs set premiums arbitrarily.
- Crop loan insurance is the most popular product whereas crop insurance (multi-peril, weather-based index crop insurance WBICI etc) and MHI are not as popular due to their complexities in determining risks, assessing claims, and hence significant more investment to implement.
- A few larger MFIs are providing MHI and only one MFI offers microenterprise insurance.
- MFIs have an unparalleled position to expand and significantly grow the microinsurance market due to their extensive networks amongst low-income households and excellent levels of trust amongst beneficiaries compared to ICs.
- Major obstacles for growth of the MFI led risk mitigation service market are lack of skills amongst MFIs in demand and risk assessments and product development (lack of local actuarial talent), unclear and conflicting regulatory guidelines, low levels of insurance awareness amongst poor households, limited capacity of existing personnel in handling the processes of offering microinsurance products. For example, claim settlements are often delayed due to the entire process being physical, and involving completion of multiple documents from both the beneficiary side and MFI side. Reluctance of ICs to partner with MFIs due to threat of competition is also a key challenge.

## Annex 6: Details of Two Mobile Network and Insurance Company Partnerships in Bangladesh

Robi has also partnered with Pragati Life and Shandhani Life and to offer life, health, and education insurance through its program 'Health Plus'. In addition to receiving various medical information, and live doctor consultancies, a user can avail of these insurance services by subscribing to the program at a daily charge of only US\$0.02 (BDT 2.00). Based on the monthly deduction, a registered user can get a maximum of US\$1,100 (BDT 1 lac) for normal or accidental death. A registered user is also eligible for a maximum benefit of US\$350 (BDT 30,000) yearly to cover in and outpatient expenses. Dengue or COVID-19 patients are eligible for benefits of US\$35 (BDT 3,000) for Inpatient Department and Outpatient Department expenses. A student pack registered user can avail up to a maximum of US\$350 (BDT 30,000) yearly based on monthly deduction if they get GPA 5 in SSC/HSC, or if they lose their parents while still studying. Claims for coverage must be made within 60 days of the incident for it to be valid. Claims settlements are paid by Pragati Life and Shandhani Life to the beneficiary's microfinance savings or bank account within 10-15 days.<sup>177</sup>

Grameenphone is offering a life insurance scheme by partnering with E. B. Solutions Limited (EBS) and Pragati Life called 'Nirvoy'. A registered user of the program must recharge at least US\$1.75 (BDT 150) per month to be eligible for the insurance benefits, which range from US\$116 (BDT 10,000) to US\$580 (BDT 50,000) based on the recharge amount. Claims for the benefits must be made within 120 days of the incident with necessary papers.

<sup>177</sup> Robi Health Plus Service. Accessed via: <https://www.robi.com.bd/en/personal/digital-solutions/health-plus>

## Annex 7: Relevant Regulations and Policies for Microinsurance Sector, Bangladesh

Policy/Plan	Insurance/Microinsurance sector contribution
Insurance Development and Regulatory Authority Act 2010	<ul style="list-style-type: none"> <li>• This is the IDRA act that dictates the roles and responsibilities of IDRA.</li> <li>• IDRA did not exist before 2010 and this act states the structure of IDRA and how it will run.</li> </ul>
Insurance Act, 2010	<ul style="list-style-type: none"> <li>• This Act states how the insurance sector will operate and was enacted in 2010 repealing of Insurance Act 1938. The Act prescribes several important rules for caring insurance business.</li> <li>• The Act made mandatory changes to the insurance sector to further development i.e., greater capital requirements, a solvency margin, increasing foreign investment into the sector etc.</li> <li>• The Act has also put forth provision for the creation of IDRA, Islamic Insurance, and Microinsurance.</li> <li>• Clause 17(1) allows the determination of premium rates for non-life insurance through a Central Rating Committee (CRC) Rates charged on products may not be actuarially determined, nor in line with demand, as they are determined through CRC.</li> <li>• Act 12 does not explicitly define various classes of business, including ag and livestock – lack of clarity</li> <li>• Set 15% of gross premium of own business as the highest limit for agency commission. It also made minimum 40% of net premium as unexpired risk reserve for any category of non-life insurance business except marine hull and aviation insurance. In case of marine hull and aviation insurance it was set as 100% of net premium.</li> </ul>
Insurance Corporation Act, 2019	<ul style="list-style-type: none"> <li>• This act was put primarily to raise the authorized and paid-up capital of SBC and JBC.</li> <li>• It replaced the Insurance Corporation Act formulated in 1973.</li> <li>• Minimum paid up capital requirement for non-life insurance companies is BDT 400 million, of which 60% would be provided by the sponsor rest would be open for public subscription.</li> <li>• Mandatory for non-life insurance companies to invest in Bangladesh Government Treasury Bond (BGTB) minimum BDT 25 million.</li> <li>• Private non-life insurers must place 50% of their reinsurance with the SBC and the remaining 50% can be placed with international reinsurers.</li> </ul>
Micro Credit Regulatory Act 2006	<ul style="list-style-type: none"> <li>• This Act was enacted to establish an authority i.e., 'Micro Credit Regulatory Authority' to moderate the regulation of micro-credit programs and institutions.</li> <li>• It specifies the financial and operational obligations that institutions must abide by to operate as an MFI.</li> <li>• It also touches upon the punishment that would be dealt for not following the rules of the act.</li> <li>• This act stands in conflict with the Insurance Act 2010. It is debated whether the microinsurance activities should be monitored by IDRA or MRA.</li> </ul>
National Insurance Policy 2014	<ul style="list-style-type: none"> <li>• Developed based on Insurance Act 2010, makes further clarification regarding the regulatory issue of microinsurance.</li> <li>• According to this policy, MFIs are not allowed to do any insurance business without making a partnership with any registered insurance company under IDRA. In other words, if any MFI or NGO wants to protect its clients by any insurance, it needs to have a contract with a registered insurance company under IDRA. This, in fact, refers to the partner-agent relationship where MFIs will be treated as the agents of the registered insurance companies.</li> <li>• Policy includes measures to regulate all microinsurance service.</li> <li>• The policy ensures participation of private insurance companies among the rural and under developed community.</li> </ul>
8th Five Year Plan (FYP)	<ul style="list-style-type: none"> <li>• The eighth FYP allocated BDT 7.5 billion for health and life insurance as part of a COVID-19 stimulus package to be implemented by Ministry of Health &amp; Family Welfare.</li> </ul>

Policy/Plan	Insurance/Microinsurance sector contribution
	<ul style="list-style-type: none"> <li>● The plan also laid out strategies for the insurers to open an actuarial department. IDRA and Bangladesh Insurance Associations will create a fund to aid actuarial students.</li> <li>● IDRA is instructed to develop a framework to store all policy related data in a digital repository called Unified Messaging Platform.</li> <li>● Acts to strengthen IDRA’s manpower capacities are emphasized.</li> <li>● There are plans of the government to introduce public health insurance, and the premium from it are going to be used to build hospitals.</li> <li>● To increase insurance penetration, insurance diversification is encouraged, and the products will be distributed by diversified distribution channels such as bancassurance, Corporate Agents, Brokers etc.</li> <li>● IDRA and ABIA will provide training to actuarial students. This will result in professionals being employed in this sector, and they will have the proper set of skills and expertise to calculate and set the right premium charges.</li> </ul>
Consumer Protection Act, 2009	<ul style="list-style-type: none"> <li>● Does not include the financial sector i.e., insurance, therefore impacts legal support for policy holders and does nothing to increase trust of insurance companies who are renowned for mal practice.</li> </ul>
Bangladesh Telecommunication Regulatory Act 2001.	<ul style="list-style-type: none"> <li>● For MHI products companies by law cannot send health related text messages in English.</li> <li>● BTRC randomly blocks IP addresses causing MNO or TVAS customers not to receive important information.</li> <li>● BTRC stipulates maximum Taka automation deduction amounts for customers paying premiums.</li> </ul>
Bangladesh Meteorological Act, 2018	<ul style="list-style-type: none"> <li>● Mandates BMD as the national meteorological service provider.</li> <li>● Act states that “no person or organization, other than BMD, shall issue any notification as to observation, forecast and warning related to meteorological services. However, other ministers, divisions and agencies, may in compliance with the forecast issues by BMD, prepare and issue, with the necessary adaptation, warning notifications for their respective fields.”</li> <li>● Two other policies underpin the role of BMD and the implementation of its mandate: National Information and Technology Policy, 2002 and Right to Information Act, 2009.</li> <li>● Policy is currently being reviewed under a WB Bangladesh Climate and Weather Services Regional Project aimed at removing the conflicting mandate of BMD and other government departments and providing improved data sharing and access for Bangladesh.</li> </ul>
Information, Communication, and Technologies Act, 2006	<ul style="list-style-type: none"> <li>● Enables a shift from wet signatures to electronic signatures (including in the insurance sector). Yet conflicts with the Insurance Act which requires wet signatures.</li> </ul>
National Health Policy 2011	<ul style="list-style-type: none"> <li>● Identifies health insurance to reduce OOP expenditure and a key strategy to bring all formal service providers –including private- under an insurance scheme.</li> </ul>
Bangladesh Labor Law, 2006	<ul style="list-style-type: none"> <li>● Employers with more than 200 permanent employees are required to provide group insurance under Section 99.</li> <li>● Section 99 further establishes requirements for the insurance claim procedure, requiring businesses to handle insurance claims in collaboration with insurance carriers within 120 days.</li> </ul>
National Agricultural Extension Policy’s (NAEP), 2012	<ul style="list-style-type: none"> <li>● Provision of efficient, effective, coordinated, decentralized, demand-responsive and integrated extension services to help farmers in Bangladesh access and utilize better know-how, improve productivity, optimize profitability and ensure sustainability, thereby ensuring the wellbeing of their families. This includes the use of ICTs for linking marketing and production systems and establishing digitized databases and management and information systems (MIS) down to the Upazila (district) level, better coordination among public and private sector actors, increased farmer-responsiveness, increased women’s participation, etc.</li> </ul>

Policy/Plan	Insurance/Microinsurance sector contribution
	<ul style="list-style-type: none"> <li>● Policies like this help develop risk mitigation strategies such as extension services, and if implemented can contribute to an overall reduction in premium costs for livestock risk mitigation services or crop insurance developed by actuaries</li> </ul>
National Plan for Disaster Management 2010-2015	<ul style="list-style-type: none"> <li>● As part of the country’s National Adaptation Programs for Action (NAPA), which provides a process for LDC’s to respond to needs arising out of climate change, insurance and other emergency preparedness measures to cope with enhanced climatic disasters ought to be explored.</li> </ul>
National Blockchain Strategy 2020	<ul style="list-style-type: none"> <li>● States that the agricultural insurance industry and the insurance sector could make use of this blockchain technology</li> </ul>
Mujib Climate Prosperity Plan (MCPP) up to 2030	<ul style="list-style-type: none"> <li>● Launched in March 2021 a strategic investment framework to mobilize financing, especially through international cooperation, for implementing renewable energy and climate resilience initiatives and aimed supplementing and accelerating the implementation of existing climate policies and plans.</li> <li>● Two most relevant components relating to the microinsurance market: Climate-resilient and nature-based agriculture and fisheries development and financial protection for Micro, Small and Medium Enterprises.</li> </ul>
Bangladesh Delta Plan 2100 (BDP 2100)	<ul style="list-style-type: none"> <li>● A comprehensive 100-year strategic plan that focuses on economic growth, environmental conservation, and enhanced climate resilience in focus ‘hotspots’.<sup>178</sup> The plan lays out holistic and cross-sectoral action needed to minimize disaster risks.<sup>179</sup></li> </ul>
National Urban Health Strategy 2014	<ul style="list-style-type: none"> <li>● Defines the areas of partnership including health insurance for UHC, effective referral system, health services for excluded communities, achieving national nutrition targets.</li> </ul>
Expatriates’ Welfare and Overseas Employment Policy 2016	<ul style="list-style-type: none"> <li>● In 2019, Prime Minister introduced a mandatory insurance scheme to cover migrants workers in case of death and injury.</li> <li>● Approx. 6 million have taken the insurance policy as of October 2021.</li> <li>● According to the policy a comprehensive welfare program will be adopted that will require migrant workers to take an insurance policy before leaving the country.</li> <li>● The conflict of not actively addressing issues of migrant workers and their families in the national social security strategy will be resolved through this policy.</li> </ul>
Policy on Guidelines for Corporate Responsibility for Banks and Financial Institutions, February 2022	<ul style="list-style-type: none"> <li>● Allocate at least 10% of their Corporate Social Responsibility budget for the Climate Risk Fund.</li> <li>● Should spend 20% of CSR budget on Environment and Climate Mitigation and Adaptation activities</li> </ul>
Guidance Notes on AML&CFT for Insurance Companies	<ul style="list-style-type: none"> <li>● Details out the various risks that affect Insurance Companies related to Anti-Money Laundering/Combating the Financing of Terrorism (AML&amp;CFT) and provides guidelines on identification and control measures.</li> </ul>
Guideline on ICT Security For Banks and Non-Bank Financial Institutions	<ul style="list-style-type: none"> <li>● The document sets a guideline on how a non-bank financial institution (Insurance Companies fall under this as well) can comprehensively set up their Information Technology (IT) system that protects the entity IT infrastructure and system.</li> </ul>

<sup>178</sup> 1) the coastal zone; 2) rivers and estuaries region; 3) urban areas; 4) Barind and drought-prone region; 5) Chittagong Hill Tracts; 6) Haor and wetland region; and 7) a cross-cutting hotspot that addresses common issues across the other hotspots.

<sup>179</sup> The World Bank. 2021. Implementing Bangladesh Delta Plan 2100: Key to boost economic growth.

Policy/Plan	Insurance/Microinsurance sector contribution
The Value Added Tax and Supplementary Duty Act, 2012	<ul style="list-style-type: none"> <li>● Value Added Tax (VAT) policies are set forth in this document for insurance services. However, nothing is to be mentioned about microinsurance services.</li> </ul>
Digital Commerce Operation Guidelines, 2021	<ul style="list-style-type: none"> <li>● Details out guidelines on e-commerce operation which includes payment options and purchase of services. Insurance services would fall under this domain as well.</li> </ul>
Bangladesh Climate Change Strategy and Action Plan 2008	<ul style="list-style-type: none"> <li>● In the climate change action plan (10-year plan from 2009-2018), under the Food security, social protection and health pillar, GOB intended to increase the resiliency of climate-vulnerable groups through safety nets and insurance programs.</li> </ul>
Gender Policy by National Social Security Strategy of Bangladesh (NSSS)	<ul style="list-style-type: none"> <li>● In May 2018, the CMC — an inter-ministerial group made up of 35 Secretaries of National Social Security Programs and chaired by the Cabinet Secretary – examined and approved this Gender policy.</li> <li>● Under this policy, a few commitments were made that are relevant to insurance, microinsurance, and social insurance <ul style="list-style-type: none"> <li>○ Ensure that the female employees in the formal sector are covered for unemployment, illness, maternity, and accidents.</li> <li>○ In partnership with employers, look into providing maternity insurance/care at no or reduced cost to women.</li> <li>○ Extend low-cost health-insurance programs to previously uninsured groups, such as informal workers and low-income/ultra-low-income population segments.</li> <li>○ Promote life and disability insurance to safeguard people if they become disabled or when they reach retirement age in ethnic and underprivileged communities.</li> </ul> </li> </ul>

Annex 8: Development Partner Landscape (2012 - 2022) - Microinsurance, Bangladesh

Development partner / Development Partners	Investment in Microinsurance	Microinsurance Type	Key Partners Engaged	Comments (Success, failures, lessons learned, next steps etc)
<b>CURRENT / ACTIVE PROJECTS</b>				
<b>Life/Health Insurance</b>				
<b>FCDO</b>	COVID-19 response project 2020 - 2022 FCDO funded the operational expenses	Credit Life Micro Health Insurance	- Chartered Life	Two years to reach profitability and scale
<b>The World Bank</b>	Bangladesh Insurance Sector Development Project (2017 – August 2022), US\$80m <ul style="list-style-type: none"> <li>- Improving the Capacity of the IDRA and the Bangladesh Insurance Academy (BIA)</li> <li>- Improving regulatory environment: new solvency margin regulation for insurance companies in line with international standards; new Claims Management Methodology,</li> <li>- ABIA Diplomas and Certificates</li> </ul> Target: Special products were developed for COVID-19 first respondents (doctors, police, firefighters etc), as well as migrant workers	Life and Medical/health insurance coverage	<ul style="list-style-type: none"> <li>- IDRA – implementing agency</li> <li>- BIA</li> <li>- JBC</li> <li>- SBC</li> </ul>	May 2021 program review - six indicators were fully achieved or overachieved, and the remaining 15 indicators were non-compliant or in progress. Absence of digitalization prevented COVID-19 uptake  Key capacity building targets of the WB by the end of February 2024 include <sup>180</sup> : <ul style="list-style-type: none"> <li>- 600 people to receive ABIA Diplomas and Certificates</li> <li>- 70% of insurance companies follow Claims Management Methodology issued by IDRA</li> <li>- 80% of insurance companies issue key facts statements to policy holders following new Consumer Protection regulations issued by IDRA</li> <li>- 60% of insurance companies follow corporate governance regulations issued by IDRA</li> <li>- IDRA is expected to issue new solvency margin regulation for insurance companies in line with international standards.</li> </ul>

<sup>180</sup> IBID.

Development partner / Development Partners	Investment in Microinsurance	Microinsurance Type	Key Partners Engaged	Comments (Success, failures, lessons learned, next steps etc)
				<ul style="list-style-type: none"> <li>- 30 on-site inspections of insurance companies performed annually by IDRA</li> <li>- 70% of registered insurance companies provide reports to IDRA under the new offsite reporting templates</li> <li>- ADD JBC and SBC</li> </ul>
<b>Crop/Livestock Microinsurance</b>				
<b>SDC</b>	<p>BMMDP 2017 – 2024 Farmers have access to qualified veterinarian and extension services and they are aware of the benefits of using crop and livestock insurance Commercially viable models for crop insurance and livestock risk mitigation</p> <p>Advocacy - public agencies are aware of the need for an enabling policy and regulatory framework for crop and livestock insurance</p>	Crop Insurance (WBICI) and Livestock Risk Mitigation Services	<ul style="list-style-type: none"> <li>- Implemented by PKSF and SFSA</li> <li>- Managing Agent Swisscontact</li> <li>- Multiple partners – MFIs, Agri retailers, DLS etc.</li> </ul>	<p><b>SFSA</b> The project has so far produced 17 products that have reached 177,312 (March 2022) farmers and have accessed 600,000 farmers in total through campaigns across 38 Upazilas.</p> <p><b>PKSF</b> Livestock Risk Mitigation Services is implemented by 15 Partner Organizations of PKSF. 100,000 farmers insured; Target is 400,000 livestock farmers.</p>
<b>Oxfam</b>	<p>Flood index-based crop insurance for Haor 2020-2022 (winding up) -As a pilot project, the SBC has launched the scheme at Mithamoin sub-district under Kishoreganj district. -Under this risk coverage, haor farmers will get compensation for their Boro crops if they (paddy) get inundated by floodwaters.</p>	Weather based index crop insurance	<ul style="list-style-type: none"> <li>- SBC</li> </ul>	<p>Investing in flood index-based insurance is expensive to implement involves a lot of specialists hydrologists, data. Oxfam funds subsidized 100% farmers premium for 5 to 6 years for 5,000 farmers 2021 = 4,500 farmers have paid their own premium. Linking MFIs with GDIC and SBC SBC only working in one district GDIC working in 4 districts</p> <p>Advocacy: Worked with SBC, Pragati and GDIC.</p>

Development partner / Development Partners	Investment in Microinsurance	Microinsurance Type	Key Partners Engaged	Comments (Success, failures, lessons learned, next steps etc)
	-Initially, 415 farmers took this coverage. They paid Tk 1,500 for each acre of land. They will get compensated worth Tk 15,000 for each acre.			
<b>PAST PROJECTS (NO LONGER ACTIVE)</b>				
<b>Life/Health Insurance</b>				
<b>ADB &amp; JFPR</b>	Developing Inclusive Insurance Sector 2010 – 2014, US\$2m (funds from Japan). <ul style="list-style-type: none"> <li>- Targeted Poor households, especially women</li> <li>- Insurance awareness campaign and training extended to at least 50,000 rural poor households</li> <li>- Capacity building private sector</li> <li>- 20,000 covered by MI by 2011</li> <li>- Strengthening Policy, Legal and Regulatory Framework</li> <li>- Microinsurance Pilot Scheme</li> </ul>	Credit Life Hospital insurance	<ul style="list-style-type: none"> <li>- Implemented by PKSF</li> <li>- 40 MFIs</li> <li>- MRA</li> </ul>	<ul style="list-style-type: none"> <li>- In one-year, total credit life policy issued 5 million with premium income of US\$ 11 million, of which 40% paid for claim</li> <li>- In order to provide reinsurance type service, PKSF created CRF from its own fund of around US\$1 million -Nine actuarial based microinsurance product developed for poor and low-income population.</li> <li>-A microinsurance market survey conducted</li> <li>-Trialled Weather Index Based Crop insurance</li> </ul>
<b>SDC</b>	Shomoshti - creates access to better health services for women in rural communities. 2017- 2020. Aimed for 3,500 beneficiaries	Micro Health Insurance	<ul style="list-style-type: none"> <li>- Implemented by Care International</li> <li>- Pragati Life insurance</li> </ul>	
<b>SNV Netherlands Development Organization</b>	Feasibility of introducing health insurance for the emptiers in Bangladesh, 2020	Micro health insurance	<ul style="list-style-type: none"> <li>- Chartered Life Insurance Ltd.</li> <li>- Alpha Islami Life Insurance Ltd</li> </ul>	The concurrence of four major stakeholders (i.e., emptiers, city corporation/municipality, health care providers and insurance company) is critical for introducing health insurance for the emptiers.

Development partner / Development Partners	Investment in Microinsurance	Microinsurance Type	Key Partners Engaged	Comments (Success, failures, lessons learned, next steps etc)
			<ul style="list-style-type: none"> <li>- Pragati Life Insurance Ltd</li> </ul>	<p>Recommended the model where the whole premium will be derived from the return of investment of the pool fund accumulated through the contribution of development partners, respective city corporation/municipality, government and local elites.</p> <p>The feasibility depends on various demand side factors like size of the group, nature of employment, compulsory nature, awareness about health, morbidity rate, occupational health hazard, ability to pay, and willingness to join.</p> <p>Insurance companies did not want to be responsible for enrolment, advocacy, awareness, promotion and regulation. They wanted that done by a local authority.</p> <p>Main challenge of introducing health insurance for the emptiers is the small size of the group of emptiers (300 to 500 per city)</p>
<p><b>INAFI</b></p>	<p>Microinsurance Mutual Entity (MIME) 2008-2013</p> <ul style="list-style-type: none"> <li>-Targeted the ultra-poor and poor households with a special preference to females</li> <li>-Concept of mutuality entailed giving beneficiaries a share of the organization ownership for dividends or bonus.</li> <li>- A demand and affordability study were conducted before product development. Particular focus was</li> </ul>	<p>Simple Term Life Insurance and Term Life Insurance with endowment</p>	<ul style="list-style-type: none"> <li>- Ashroy</li> <li>- BURO Bangladesh</li> <li>- Community Development Centre (CODEC)</li> <li>- GUK</li> <li>- Shakti Foundation for Disadvantaged Women (SFDW)</li> <li>- Voluntary Association for Rural Development (VARD)</li> </ul>	<p>Success:</p> <ul style="list-style-type: none"> <li>-As of August 2012, total number of policyholders amount to 140,404 with 16 districts being covered.</li> <li>-Provided insurance training to 2,290 Partner NGOs staff, and 48,767 potential clients.</li> <li>-Total premium collected from January 2008 to August 2012 is BDT 228,466,004.</li> </ul>

Development partner / Development Partners	Investment in Microinsurance	Microinsurance Type	Key Partners Engaged	Comments (Success, failures, lessons learned, next steps etc)
	<p>given on need, demand, income, willingness to pay, and risk of the poor.</p> <ul style="list-style-type: none"> <li>-Partner NGOs/MFIs are enabling MIM through their branch offices.</li> <li>-Proper steps of educating the mass and staff about insurance are taken</li> </ul>			
<b>ILO</b>	<p>Health Microinsurance: A Comparative Study of Three Examples in Bangladesh 2005</p> <ul style="list-style-type: none"> <li>- This comparative study looked at three health insurance schemes in Bangladesh, namely those run by BRAC, Grameen Kalyan (GK) and the Society for Social Services (SSS).</li> </ul>	Health Microinsurance	- CGAP	<p>Recipients must be considered in devising the product, and its pricing.</p> <ul style="list-style-type: none"> <li>-Existing NGOs have an advantage, they already have the institutional capacity necessary to carry out large scale microinsurance programs.</li> <li>-Poor people are hesitant on participating in such programs that do not provide them with immediate returns, so necessary education is required to make the poor more aware.</li> <li>-Simple claims reimbursement systems must be established to ensure customer satisfaction, lower administrative overhead expenses, and allow clinic staff to concentrate on health care activities.</li> <li>-Operational costs are seldom recovered by the NGOs for these products.</li> </ul>
<b>Consultative Group to Assist the Poorest (CGAP)</b>	<p>Three Lessons from Mobile Microinsurance in Bangladesh 2014</p> <ul style="list-style-type: none"> <li>-BIMA and Robi together launched a micro-life insurance product called Bima Life Insurance over mobile sets.</li> <li>-Robi customers who stay loyal and spend a minimum level on airtime were eligible for the coverage. By</li> </ul>	Micro-life Insurance	<ul style="list-style-type: none"> <li>- BIMA</li> <li>- Robi Axiata</li> </ul>	<p>Lessons learned:</p> <ol style="list-style-type: none"> <li>1.Contrary to popular belief, poor people in the urban areas are equally eligible for the coverage compared to rural people.</li> <li>2.Majority of the insured clients had a bank account but still preferred to get insurance coverage through their mobiles.</li> </ol> <p>It was seen that the clients preferred online channels when it came to payment of premiums, but</p>

Development partner / Development Partners	Investment in Microinsurance	Microinsurance Type	Key Partners Engaged	Comments (Success, failures, lessons learned, next steps etc)
	<p>simply spending at least \$3.20 on airtime each month, a customer can earn and accumulate up to \$650 worth of life insurance benefits, completely free.</p> <p>-This initiative by Bima and Robi has since attained almost 4.5 million registered customers in just over 20 months of operations and continues to grow.</p>			preferred face to face interactions in case of claims settlements.
<b>JICA</b>	<p>Developing and Implementing Inclusive Insurance in Bangladesh 2017</p> <p>-The study broadly covered the microinsurance sector in Bangladesh and the products offered.</p> <p>- The study defined the status quo, challenges and future prospects of micro health insurance and property microinsurance in Bangladesh.</p>	Micro health Insurance	<ul style="list-style-type: none"> <li>- Institute for Inclusive Finance and Development</li> <li>- PKSf</li> </ul>	<p>Some of the challenges to the microinsurance sector were identified to be:</p> <ol style="list-style-type: none"> <li>1. Unalignment of supply and demand side needs</li> <li>2. Product design and delivery</li> <li>3. Determination of premium</li> </ol> <p>Regulatory issues</p>
<b>Centre for Financial Inclusion</b>	<p>Making Microinsurance Work in Bangladesh: Three Takeaways 2017</p> <p>In January 2017, BRAC initiated a microinsurance product named '<b>Credit Shield Insurance</b>' with the help of Guardian Life Insurance Company. After thorough testing of the product, the insurance scheme garnered 5 million clients across the country. It has three distinct benefits:</p>	Life Insurance	<ul style="list-style-type: none"> <li>- BRAC</li> </ul>	<p>Lessons Learned:</p> <p><b>Scaling changes the requirements of the pilot:</b> In order for the operation to be sustainable, certain features of the product were changed up for example, readily available cash disbursements in case of deaths were increased. Certain specifications were required to be changed to ensure that the clients were not enrolling into the program without disclosing serious health conditions.</p> <p><b>Building client's understanding and acceptance:</b> The demand side needs to flourish for the microinsurance sector to kick off. And BRAC took the</p>

Development partner / Development Partners	Investment in Microinsurance	Microinsurance Type	Key Partners Engaged	Comments (Success, failures, lessons learned, next steps etc)
	<ol style="list-style-type: none"> <li>1. It covers the outstanding loan balance in full in the event of death of a client or her/his insured family member.</li> <li>2. The nominee (the client or the surviving family member) receives an instant cash benefit to cover hospital and funeral expenses</li> <li>3. Clients' savings with BRAC are reimbursed with full benefits to the family. And all these benefits come at a nominal, one time (per loan) premium.</li> </ol>			<p>necessary measures to conduct educational seminars to inform the poor people of the benefits of insurance. This was done through both group and individual meetings, phone calls, pictorial presentations, storytelling, and using real life examples.</p> <p><b>Prioritize convenience of use:</b> The claim processing time has been reduced from 10 to only 3 days through automating the entire process. Also, the ready disbursement of benefits on the date of death has ensured that people look at insurance products with more trust.</p>
<b>Non-Life Insurance</b>				
<p><b>Japanese International Corporation Agencies (JICA)</b></p>	<p>Developing and Implementing Inclusive Insurance in Bangladesh 2017</p> <ul style="list-style-type: none"> <li>-The study broadly covered the microinsurance sector in Bangladesh and the products offered.</li> <li>- The study defined the status quo, challenges and future prospects of micro health insurance and property microinsurance in Bangladesh.</li> </ul>	<p>Property Microinsurance</p>	<ul style="list-style-type: none"> <li>- Institute for Inclusive Finance and Development</li> <li>- PKSF</li> </ul>	<p>Some of the challenges to the microinsurance sector were identified to be:</p> <ol style="list-style-type: none"> <li>4. Unalignment of supply and demand side needs</li> <li>5. Product design and delivery</li> <li>6. Determination of premium</li> </ol> <p>Regulatory issues</p>
<b>Crop/Livestock Insurance</b>				
<p><b>FCDO</b></p>	<p>2016 BAF-B and GDIC Crop Insurance Provided insurance coverage to 16,000 farmers with total of 5,000 acres against weather fluctuation in 9 districts.</p>	<p>Crop Insurance</p>	<ul style="list-style-type: none"> <li>- GDIC</li> </ul>	



Development partner / Development Partners	Investment in Microinsurance	Microinsurance Type	Key Partners Engaged	Comments (Success, failures, lessons learned, next steps etc)
<p><b>The ADB &amp; JFPR</b></p>	<p>Developing Inclusive Insurance Sector 2010 – 2014, US\$2m (funds from Japan).</p> <ul style="list-style-type: none"> <li>- Targetted Poor households, especially women</li> <li>- Insurance awareness campaign and training extended to at least 50,000 rural poor households</li> <li>- Capacity building private sector</li> <li>- 20,000 covered by MI by 2011</li> <li>- Strengthening Policy, Legal and Regulatory Framework</li> <li>- Microinsurance Pilot Scheme</li> </ul>	<p>Livestock Risk Mitigation Crop insurance</p>	<ul style="list-style-type: none"> <li>- Implemented by PKSF</li> <li>- 40 MFIs</li> <li>- MRA</li> </ul>	<ul style="list-style-type: none"> <li>- In one-year, total credit life policy issued 5 million with premium income of US\$ 11 million, of which 40% paid for claim</li> <li>- In order to provide reinsurance type service, PKSF created CRF from its own fund of around US\$1 million -Nine actuarial based microinsurance product developed for poor and low-income population.</li> <li>-A microinsurance market survey conducted</li> <li>-Trialled Weather Index Based Crop insurance</li> </ul>
<p><b>IFC</b></p>	<p>WIBCI 2015</p> <ul style="list-style-type: none"> <li>-developing insurance products to address perils such as drought, excess rain, heat waves and cold spells in Bangladesh.</li> <li>- More than 25 Weather Index Insurance products are designed for a large variety of crops</li> </ul>	<p>WIBCI: rice, tomato, potato, maize etc.</p>	<ul style="list-style-type: none"> <li>- GDIC</li> <li>- Sadharon Bima Corporation</li> <li>- MFIs &amp; Agri-businesses: distribution partners</li> <li>- India’s weather forecasting entity, Skymet worked with BMD to design a rainfall gridded index for all of Bangladesh</li> </ul>	<ul style="list-style-type: none"> <li>-As of February 2017, GDIC has launched agri-insurance pilots to cover 200 farmers, and by December 2017, claims of 1000 farmers were settled.</li> <li>- It expects to cover 75,000 farmers in the country by the end of the project</li> </ul>
<p><b>Oxfam</b></p>	<p><b>2019 Index based flood insurance (IBFI)</b></p> <p>IWMI researchers used satellite maps from NASA <u>MODIS</u> mission, looking at 250m by 250m plots of land, to map inundation on a daily basis between</p>	<p>Flood Index Insurance</p>	<ul style="list-style-type: none"> <li>- IWMI</li> <li>- GDIC</li> <li>- BWDB</li> </ul>	<p>The trial involved 3,500 smallholders from two Upazila of Gaibandha district. When heavy rain battered Bangladesh from early July 2019. The trial participants were all affected by the floods, and they shared BDT 2.67 million (USD \$31,500) in</p>

Development partner / Development Partners	Investment in Microinsurance	Microinsurance Type	Key Partners Engaged	Comments (Success, failures, lessons learned, next steps etc)
	<p>2001 and 2018. This highlighted historic patterns and showed where flooding might happen in the future. The researchers validated the model using data from the <u>Bangladesh Water Development Board</u> (BWDB) and European Space Agency (ESA) <u>Sentinel-1</u> satellite data. Insurance experts then designed pay-out conditions around anticipated timings and levels of flooding, potential crop damage, wages and other socioeconomic factors. It took just two weeks to assess the claims, with pay-outs making their way into farmers' bank accounts soon after.</p> <p>Refer SDC</p>	Flood Index Insurance	<ul style="list-style-type: none"> <li>- Pragati</li> <li>- Swiss Re (reinsurer)</li> </ul>	compensation; IWMI now looks for start-ups, MFIs to market the product.
<p><b>Korea International Cooperation Agency</b></p>	<p>Climate-Risk Insurance Scheme 2019 - 2020</p> <ul style="list-style-type: none"> <li>-The goal is to enhance the ability of households in flood-affected areas to deal with climate shocks</li> <li>- The insurance scheme is based on the analysis of satellite data collected over 19 years, along with the latest water level and rainfall data</li> <li>-The pay outs are distributed by Green Delta Insurance through their mobile money platform.</li> </ul>	Weather based crop insurance	<ul style="list-style-type: none"> <li>- Implemented by World Food Program (WFP) in partnership with Oxfam</li> <li>- Weather Risk Management Services, India</li> <li>- GDIC</li> </ul>	-During the 2020 monsoons season, Bangladesh experienced the largest and longest flooding event in 20 years. This triggered a pay out that provided each recipient household with US\$32.

Annex 9: Development Partner Capacity Building Areas to Microinsurance Stakeholders, 2012-2022

Recipient of Capacity Building	Capacity Building Area
MFIs	Insurance underwriting and screening Financial management Product development Marketing
IDRA	Policy development Development of systems and processes to effectively regulate Insurance expertise Accountability frameworks
MRA	Collaboration with IDRA Drafting policy
SBC	Improving organizational structure Strengthening corporate governance - internal control, better transparency, efficiency and compliance with regulatory requirements Implementation of the amendments of the Insurance Corporation Act and the new paid-up capital requirements Improving risk management and transfer
JBC	As above
ABIA	Staff restructuring and training Curriculum development
Low-income Beneficiaries	Financial literacy Insurance awareness Disaster preparedness Risk mitigation activities

Annex 10: Potential Sub-Sector Evaluation Criteria – Definitions and Scoring

#	Criteria	Verification	Scoring
<b>Relevance</b>			
1	Poor included in Market System	The number of poor individuals with potential to be active in the market system (employees, entrepreneurs, beneficiaries etc.)	0 = no poor in the market system opportunities; 5 = significant number of poor in market system
2	Opportunities for the Poor to improve their incomes and access to basic services	The number of entry points for the poor in the sector.  Potential to increase economic benefits for target groups – pro poor and inclusive growth.  Potential for employment generation - direct and indirect job opportunities  Potential for entrepreneurship  Potential for increased economic benefits to the poor	0= no opportunities for the poor; 5= significant opportunities for the poor

#	Criteria	Verification	Scoring
3	Vulnerability and/or disadvantaged	Ability to address vulnerability and/or disadvantage i.e., intervention will result in sufficient reduction in vulnerability and/or disadvantaged by reducing risks	0= no opportunities to address vulnerability; 5= many opportunities to address vulnerability
4	Opportunities for Gender Inclusion	The number of entry points for females in the sector  Ability to absorb high percentage of females for gender inclusion	0 = no opportunities for women; 5 = 50% opportunities for women
5	Alignment to Government priorities	Is the market or possible interventions a government priority or could they be supported by the government?	0 = not aligned and not a govt priority; 5 = aligned and a govt priority destination
6	Strategically aligned with SDC priorities – Bangladesh and Regionally	Is the potential microinsurance sub-sector strategically aligned with SDC priorities? Are the possible intervention areas a SDC priority or could they be supported by SDC? e.g., addresses climate change, gender, financial inclusion	0 = no synergies with SDC, not aligned and not a SDC priority; 5 = a lot of synergies with other SDC priorities

### Opportunity

7	Market Size & Growth (Existing Demand)	Existence of a market.  Economic or social value of the market is sufficient  Does the market have the potential for pro poor growth?  Are there sufficient numbers of potential beneficiaries?	0 = no existing market; 5 = significant existing market with significant social value and pro poor growth
8	Identifiable and actionable constraints / opportunities	The issues at hand are understood, it is clear why they are there and there are clear leads for fixing them	0 = no constraints identified or if there are constraints no way to action these; 5 = constraints identified, understood and actionable
9	Potential for reducing risk exposure in the market system, particularly of the poor	Are there clearly identified risk mitigation needs of the low-income groups? Are there sufficient risks in the sector? Beyond insurance are there other risk mitigation activities in the sector to reduce risk exposure and premiums?	0 = risks not understood and no existing risk mitigation activities; 5 = Risks understood, and risk mitigation activities exist
10	Private and public sector investment	Opportunities for attracting private and public sector investment  Is it viable to attract investment and launch a microinsurance product?	0 = no potential for scale; 5 = good potential for scale i.e., can reach a significant % of the poor

#	Criteria	Verification	Scoring
<b>Feasibility</b>			
11	Are there available networks and means of reaching potential beneficiaries with microinsurance products?	Availability of trusted, effective and responsible entities / networks that can reach potential microinsurance beneficiaries in the sector	0 = no trusted entities to reach beneficiaries; 5 = sufficient trusted entities to reach beneficiaries
12	Availability of lead enterprises, key actors and influencers with leverage	<p>Are there existing insurers interested in participating in the sector?</p> <p>The number of potential partners, actors, champions with whom the project can work with to resolve the constraints</p> <ul style="list-style-type: none"> <li>- Sufficient numbers on the supply side</li> <li>- Sufficient numbers on the demand side</li> </ul>	0 = no lead enterprises / key actors-influencers with incentives to operate; 5 = many lead enterprises / key actors-influencers with incentives to operate
13	Insurance Specialist Feasibility	Would an insurance company invest in this sector? Has the sector had positive results in other countries? Ease or degree of difficulty developing insurance products based on risks, interest of insurers locally and internationally etc.	0 = not feasible; 5 = feasible
14	Potential for attracting more players	<p>Potential to attract more players into the market system</p> <p>Crowding in opportunities for the private sector</p>	0 = no potential for new players; 5 = a lot of potential for new players in market
15	Conducive Enabling Regulatory Environment and Political Economy	<p>Is the political economy conducive to intervention (microinsurance sector, sector specific)?</p> <p>Are there a limited number of conflicts and barriers to reform in the market system?</p>	0 = not a conducive political economy; 5 = a conducive political economy

Annex 11: Potential Microinsurance Sub-Sector Scoring Matrix & Evaluation

	RELEVANCE							OPPORTUNITY					FEASIBILITY					FINAL RANKING (MAX SCORE = 75)				
	Subtotal Relevance (Out of 30)	Strategically Aligned with SDC priorities - Bangladesh & Region Financial & Gender Inclusion, Climate Change	Alignment to Government & Priorities	Opportunities for Gender Inclusion	Vulnerability and/or disadvantaged	Opportunities for the Poor to improve incomes and access basic services	Poor Included in the Market	Subtotal Opportunity (Out of 20)	Private and Public Sector Investment	Potential for reducing risks, particularly for the poor	Identifiable and actionable opportunities & constraints	Market Size & Growth (Existing Demand)	Subtotal Feasibility (Out of 25)	Conducive Enabling Environment & Political Economy	Potential for attracting more Players	Insurance Specialist Perspective: feasibility, no. of opportunities,	Availability of Lead Enterprises, Key Actors & Influencers with Leverage		Availability of trusted & functioning network(s) to reach beneficiaries			
<b>Potential microinsurance sub-sector</b>																						
Light Engineering	22	2	5	3	3	4	5	4	4	4	4	16	4	4	4	3	3	4	3	4	17.5	55.50
Furniture	20	3	3	3	3	4	4	4	3.5	4	4	15.5	4	4	4	3	3	4	4	3.5	17.5	53.00
Mango	22	4	4	3	3	4	4	3	4	4	3	14	3	2.5	2	3	4	3	4	14.5	50.50	
Retail	19.5	3	3	4	2	4	3.5	4	3.5	3	3	13.5	4	3	5	3	2.5	3	4	3	17.5	50.50
Handicrafts	22	3	3	4	3	4	5	3	3	2	3	11	3	2.5	2	2.5	2.5	3	3	12.5	45.50	
Floriculture	19	4	2	4	3	3	3	2	3	3	2.5	10.5	2	2.5	2	2.5	2.5	4	4	13.5	43.00	
Fisheries	20	4	3	2	3	4	4	3.5	3	3	2.5	12	1.5	2.5	1	2	2.5	2.5	2.5	9.5	41.50	

## Annex 12: Overview of Potential Microinsurance Sub-sectors (Handicrafts, Floriculture, and Fisheries)

The following assessments are supported by full sector profiles provided as separate PDFs to the BMMDP team.

### Handicrafts

- Rank #5
- Score 45.5/75

**Recommendation:** Proceed to a short list on the basis that the associations and producer groups have the potential to offer functioning and trusted networks for the beneficiaries and that further understanding of risks and demand factors are research. However, if further research proves that there are other microinsurance sub-sectors that are easier to reach than the handicraft sector may not have the most potential. It scores highest on gender inclusion compared to any other sector – hence a key reason for its inclusion.

- The market size is significant valued at US\$1.8 billion in FY 2020-2021 and achieving growth of 23.66% predominantly due to the use of technology for B2C and B2B sales and growth of exports.<sup>181,182</sup> During COVID-19 the sector has experienced 50% growth showing that it is a resilient sector in times of pandemics.<sup>183</sup>
- A large workforce of 5 million made up of 82% women of which 60% are considered under privileged the sector scores high on inclusion of poor, pro poor opportunities, vulnerability and/or disadvantaged and gender inclusion, although opportunities for gender inclusion are limited. There are 72 companies that export handicrafts to approximately 60 countries.
- Whilst the gender score is high, climate impacts are low. There are no significant climate change risks impacting the sector other than a diminishing supply of some raw materials.
- There are available networks such as associations to reach beneficiaries with MI products however further research is needed to understand how well organised these are and how trusted they are with the beneficiaries. To be interested in this sector insurers would need to ensure that there are significant numbers of beneficiaries that are easy to reach.
- Constraints for the sector are identified however are fairly generic across most of Bangladesh's more informal sectors. Whilst some risks exist such as damage of products from transportation and or tools such as wooden lathes or weaving looms, accidents for some subsectors, the initial analysis does not highlight a significant need for microinsurance compared to other sectors.
- Whilst the government has identified handicrafts as a 'special development sector' there has been very little action to enact drafted policies. Further research on the government's commitment is needed.

<sup>181</sup> Tasneem, S. & Biswas, R. 2014. 'Role of Cottage Industry in the Economic Development of Bangladesh: An Empirical Study. European Journal of Business and Management, ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online), Vol.6, No.28, 2014

<sup>182</sup> [wewm#KiKg@KvDcwiwPwZ@portal.gov.bd](mailto:wewm#KiKg@KvDcwiwPwZ@portal.gov.bd)

<sup>183</sup> The Business Post. 2021. Prospect of handicrafts in Bangladesh. Published 10 September 2021.

- If after further assessment it was concluded that there are sufficient trusted distribution networks, then products such as accident and health could be provided either as group or individual insurance.
- One concern is that this high-level assessment did not find any interest from insurance companies and MFIs to develop a product.

### Floriculture

- Rank #6
- Score 43/75

**Recommendation:** Do not proceed to a short list. Despite scoring high on gender and climate, most other criteria it scores low on. The market is still too nascent with small number of beneficiaries and an unknown level of demand, lead actors and understanding of risks and constraints. Other potential microinsurance sub-sectors provide evidence of more promise.

- Commercial floriculture is an extremely nascent industry in Bangladesh. The domestic market is valued at US\$186 million per annum and is growing by 10% every year.<sup>184</sup> The substantial growth in domestic demand has come at a cost to exports, with exports declining significantly from US\$16.8 million in FY2013-14 to US\$3.98 million in FY 2018-19.<sup>185</sup>
- There are 5,000 farmers and 4,000 retail outlets employing 150,000 to 200,000 which is a relatively small number compared to other potential microinsurance sub-sectors.<sup>186,187</sup>
- Whilst numbers of low-income households involved in the sector are not known, the floriculture sector can provide opportunities for alternative and high value incomes for many low-income households in both urban and rural areas, particularly diversification via off farm income. It scores higher on gender inclusion with women well represented at almost all levels of the floriculture value chain including production, assembling, as well as working in retail markets.<sup>188</sup>
- The sector scores high on climate change as the associated risks are directly related to changes in climate such as floods, drought, irregular rainfall and monsoon seasons, increased temperatures, and changing humidity. However, the sector also has a large environmental footprint using large amounts of water, pesticides and refrigeration (Co2) to keep flowers fresh.
- Beyond the risks from climate change other risks that could be covered include workers health, injury, and loss of crop / quality due to poor cold storage and transport systems.
- Whilst not a high priority sector for the government, there is some support from the government to ensure its development and growth given it is considered a high-value crop.
- Constraints to growth, the availability of lead actors and demand for insurance product are unknown and would need further assessment.

<sup>184</sup> Dhaka Chamber of Commerce and Industry (DCCI), 2020

<sup>185</sup> Export Promotion Bureau (EPB), 2020

<sup>186</sup> IBID

<sup>187</sup> World Bank. 2018. Economic Empowerment of Women through Resilient Agriculture Supply Chains: A Geospatial and Temporal Analysis in Southwestern Bangladesh.

<sup>188</sup> IBID.

## Fisheries

- Rank #7
- Score 41.5/75

**Recommendation:** Despite scoring well on many of the assessment criteria it is not recommended to proceed the fisheries sector to a short list. International experience has shown that fisheries is the most difficult sector to develop index-based insurance with very few successful examples, particularly in nascent microinsurance markets like Bangladesh. Stimulating demand for microinsurance in Bangladesh is essential. Extremely difficult products to develop and manage, predicted high premiums due to significant risks, poor fisheries skills and knowledge in the insurance sector, and a challenging sector where there are corrupt cooperatives exist all do not provide the basis for a healthy operating environment. BMMDP would be better off investing in other sectors where ease of entry and the types of products are easier to develop.

- The sector contributes 3.57% to GDP, 25.3% to agricultural GDP and less than 3% to foreign exchange earnings through the export of fish products. Furthermore, the industry provides 60% of the populations protein.<sup>189</sup>
- Employs 1.4 million people in full-time employment, and 12 million in part-time employment.<sup>190</sup> Second largest employer in rural areas and a sector that plays an important role in poverty reduction via incomes, nutrition, and employment, and a priority sector for the government the sector scores high on relevance.
- The impacts of climate change on the sector are significant and other risks are clearly identified. However, whilst there have been mitigation strategies identified it is unknown how successfully these are being applied impacting the cost of insurance. A more detailed understanding of what risk mitigation methods are available and used by the targeted insured population. The more mitigation methods implemented the more attractive the sector will be to an insurance company and the more attractive the premium would be to the low-income household.
- Based on international experience and the numerous risks identified in this high-level assessment the potential price of insurance of the risk covered maybe near 10%. At this high-level enrolment from beneficiaries would be reduced significantly and not enable insurers to reach scale and profitability. If the government subsidized insurance in this sector it would need to be reduced so that the cost to client was 3% or lower. At this rate it could potentially work.
- With the predicted cost as high as 10% and little or no appetite of the government to provide subsidies for microinsurance in Bangladesh. Until such time it could prove challenging to get insurance companies onboard to develop products for this sector.
- A key component of the market system is ensuring the government has proactively developed disaster and risk management policies and plans in the event of natural disasters, loss of fishing stocks due to disease, flooding, drought etc. Having governments have policies and plans in place with a commitment to underwrite some of the risk can help attract insurers to a nascent market.
- There is political buy in and interest to develop microinsurance for the fisheries sector from key government departments and some microinsurance companies pending concrete demand and risk assessments. Shrimp microinsurance for the sector was explored with the Ministry of Livestock and Fisheries and the WBG however were not successful.
- Constraints to growth are well defined and understood.
- It is critical to have a trusted and functioning network / entity that can reach potential clients. Whilst cooperatives exist in the fisheries sector initial assessments conclude that these are highly corrupt and politically motivated in Bangladesh and are therefore not an ideal entity. More

<sup>189</sup> USAID. 2016. Marine Tenure and Small- scale Fisheries: Learning from the Bangladesh Experience and Recommendation for the Hilsa Fishery, Washington, DC: USAID Tenure and Global Climate Change Program.

<sup>190</sup> <https://www.theguardian.com/global-development/2020/oct/26/we-do-not-get-a-chance-at-happiness-the-bangladeshi-fishermen-caught-by-debt>

understanding of other networks such as fish feed suppliers as potential distributors of microinsurance is needed to assess their level of trust and effectiveness. Without a trusted and functioning entity to reach beneficiaries any microinsurance product will not succeed.

- Having available skills to enter any market with microinsurance is key. Currently as there are no insurance products for the fisheries sector it is unlikely that the necessary skills for developing microinsurance products are available in Bangladesh. Specific skills required would include:
  - Actuaries who understand the fisheries sector or any of its subsectors (pending which type of insurance). Currently the two actuaries located in Bangladesh do not have the knowledge or relevant skills for the fisheries sector. International expertise would be required.
  - Aquaculture specialists, marine biologists etc. who have an in depth understanding of the problems and risks facing fishers and how these can be overcome.
  - Sales and marketing teams within insurance companies need to have the knowledge of how to reach the target beneficiaries.
  - Claims teams in insurance companies need to understand the sector to be able to ascertain what is a fraudulent claim or not. This may also require significant manpower or investment in technology.
  - Sales and marketing who understand who to reach and how to communicate with the beneficiaries.
- For an insurance company to invest in these skills there would need to be an attractive business case. For example, a network to reach the beneficiaries, affordable premium and volume of beneficiaries. If these do not exist getting the insurers to investment in the necessary skills would be challenging.

# **Part B:**

## **Assessment of Components 1 and 2 of the Bangladesh Microinsurance Market Development Project**

## Executive Summary (Part B)

The Bangladesh Microinsurance Market Development Project (BMMDP) Phase I is a five-year project (2017 to 2022), with three key components (refer to Introduction) mandated by the Swiss Agency for Development and Cooperation (SDC) with Swisscontact as the Managing Agent (MA) and two implementing partners responsible for implementing one component each. The goal of BMMDP Phase I by December 2022 is to improve farmers' well-being through enhanced agricultural productivity and resilience to natural disasters and the negative impacts of climate change.

As BMMDP Phase I comes to an end, and with the possibility of a Phase II, a high-level assessment using the OECD Development Assistance Committee (DAC) Evaluation Framework, adapted to the project context, was carried out (December 2021 to March 2022) for two of the three project components:

- Component 1: Crop Insurance (C1) implemented by Syngenta Foundation for Sustainable Agriculture (SFSA)
- Component 2: Livestock Risk Mitigation Services (C2) implemented by Palli Karma Sahayak Foundation (PKSF)

C1 and C2 were assessed against four of the six OECD DAC Evaluation Criteria (relevance, effectiveness, efficiency, and sustainability). The main objective of the high-level assessment was to provide learnings from the current implementation experience, rather than ranking the performance on a scale. For the latter, a more in-depth assessment would be necessary which was not the main purpose of this study.

The results of this light-touch, high level assessment are summarised below:

**Relevance:** In general, BMMDP is considered relevant. Given Bangladesh is the seventh most climate vulnerable country in the world, C1 and C2 address the key need of improving the resilience of crop and livestock farmers from climatic shocks, via the provision of risk mitigation tools. BMMDP addresses climate change impacts which are very high on the agenda for both public and private sector stakeholders. Furthermore, the Government of Bangladesh (GOB) has highlighted in the 8<sup>th</sup> Five Year Plan (2020-2025) and other plans and policies the importance of insurance products and services. Relevance is very high from an SDC perspective with a high importance placed on climate change, innovation and insurance products in its global and regional strategic frameworks. **The project misses its full relevance potential when looking at the detail design and current scope: the insurance products do not yet cover important key needs of farmers in terms of insurance protection, the project does also not address key challenges in the regulatory framework, the absence of functioning support service for demand driven product development and the currently weak claims management process.**

**Effectiveness:** BMMDP in general is considered effective and stand highly likely to overachieve its quantitative targets. It further is effective in addressing the lack of appropriate microinsurance products by introducing new products, it addresses the lack of appropriate distribution channels to a certain extent and produces a range of best practices, for instance by bundling insurance with other key services, such as for instance credit and extension services for livestock. It is less effective on the other hand with regards to improving overall demand for microinsurance, in stimulating change in the support service market for demand driven product development by incentivising private sector companies to participate, and in strengthening the use of technology, for instance for the claims management process.

**Efficiency:** **in terms of efficiency the current project set-up is not considered optimal.** A management agent and two pilot implementers increase delivery costs and makes steering cumbersome. The management agent is by design not optimally engaged in implementation and change facilitation, which makes it challenging to play to its strength as ISD expert. The ISD mandate and capacities of the side of the implementing organisations is on the other hand limited. **SDC's role could be more pro-active as a door opener and convener in the policy dialogue, a role currently delegated out to the management agent which affects both effectiveness and efficiency.**

**Sustainability:** The relevance, effectiveness and efficiency challenges mentioned above affect sustainability potential. While sustainability ambitions have to be kept realistic for a pilot project, the limited focus on overarching systemic constraints combined with limited capacities to facilitate change based on real market incentives affects sustainability potential overall.

The assessment concludes that the performance of the project is very much connected to the evolution of the design. While the project was initially set-up to proof concept of microinsurance pilots in two different agriculture areas, it did not transition more prominently into more systemic change thinking over time. The set-up did also make it difficult to do so. This is not due to underperformance of any of the implementing partners or of the management agent per se, but rooted in how the mandate came to develop over time.

Our conclusion is therefore that there is a fundamental need to re-design the project and change the set-up to allow a different way of working. We recommend to:

1. Go into a Phase II building on the proof in concept and results achieved in phase 1, but with a considerable re-design based on **inclusive systems development (ISD) principles and incentives**.
2. **Take the role of neutral facilitator**, a key part of an ISD approach.
3. Have a **dedicated intervention to facilitate the evolution of a more conducive microinsurance regulatory environment** which will assist advocacy and ultimately influence the enabling environment. Having the **right implementation team** who can engage at policy level convening different interests will be advantageous to BMMDP. Securing the opportunity for SDC in Bangladesh to play a proactive role influencing policy dialogue is key.
4. **Leverage the comparative advantage of SDC and Swisscontact's expertise** in microinsurance and market systems development globally and regionally.
5. **Anchor the project under one umbrella only, ideally somewhere within the government structure (e.g. FID in MoF)**.
6. Have an implementation set-up which is **leaner and more agile** – this refers to number of organisations in the management set-up, not to number of staff members needed in the delivery - **with a project implementer with ISD delivery capacity**
7. Open a **sector portfolio** which includes the current pilot sub-sectors of crop and agriculture but adds some of the key **non agriculture potential sub-sectors** identified as having potential. This allows to bring in additional and new evidence to generate interest and buy-in and to capitalize on opportunities in different sectors.

## 1. Introduction

The Bangladesh Microinsurance Market Development Project (BMMDP) is a five-year project (October 2017 to December 2022) with a budget of CHF 8.66 million mandated by the Swiss Agency for Development and Cooperation (SDC). It is implemented through a mechanism of a management agent, Swisscontact, and two main implementing partners responsible for one of the components each. The goal of BMMDP is to improve farmers' well-being through enhanced agricultural productivity and resilience to natural disasters by Dec 2022. BMMDP is tasked to achieve this goal by making relevant crop insurance and livestock risk mitigation products and services available and accessible to farmers achieving at least 336,000 insured farmers by 2022. BMMDP targets smallholder farmers, particularly women, poor and disadvantaged, as ultimate beneficiaries.

BMDDP's Phase I has three key components:

- **Component 1 (C1) Crop Surokkha** implemented by Syngenta Foundation for Sustainable Agriculture Bangladesh (SFSA Bangladesh).
- **Component 2 (C2) Livestock Surokkha** implemented by Palli Karma Sahayak Foundation (PKSF).<sup>191</sup>
- **Component 3 (C3) Surokkha – Sector capacity development in agricultural microinsurance** implemented by Swisscontact.

Specifically, the assessment has three key objectives:

1. To learn from current project interventions of BMMDP C1 and C2 in view of relevance, effectiveness, efficiency and sustainability
2. Based on these learnings, provide recommendations for the remainder of the current phase until December 2022.
3. Provide insights, in combination with the results of the market systems assessment, for a more detailed design of a possible phase 2 of BMMDP

It is important to underline that it does not provide a detailed design for a phase 2 and that such a process will need to take place taking inspiration from the findings in this report.

It is further important in the view of the study team to put the assessment within the context of the evolution of the programme, as this has an important effect on the performance of the programme. In short, as will be shown later, the programme performs well in terms of effectiveness given the set-up it operates in and managing agent and implementation partners fulfil the mandate they were given within this set-up. But the set-up and design of the project is also one of the key reasons why relevance, effectiveness, efficiency, and sustainability are not as high as they could have been, if the project would have been designed differently from scratch:

- The project started with a pilot initiated through SDC head office and SCBF with Syngenta Foundation in 2015 with feasibility studies
- SDC provided an opening credit to PKSF in 2016 for conducting a feasibility study for assessing the needs for livestock risk mitigation/microinsurance service in Bangladesh
- Due to HR capacity constraints at SDC level, a tender process for a management agent was carried out in 2017
- Swisscontact came on board as management agent in 2017
- Crop Surokkha pilot started with SFSA in September 2018
- Livestock Surokkha pilot started with PKSF for livestock in 2020
- Due to the challenging political economy and regulatory framework, the project ended up with two-fold institutional anchor: the NGO affairs bureau and the FID of the MoF

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<sup>191</sup> The public-private apex body of Microfinance Institutions in Bangladesh.

## 2. Assessment Approach

This high-level assessment of the current BMMDP pilots for C1 and C2 was carried out from December 2021 to March 2022 and used the OECD Development Assistance Committee (DAC) Evaluation Framework adjusted for BMMDP's local context.

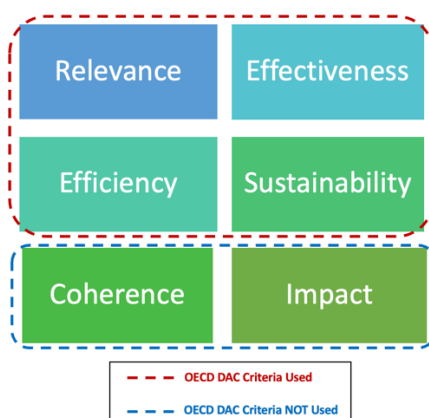


Figure 1: OECD DAC Criteria Used to Assess BMMDP Components 1 and 2, 2022

The two criteria not included were impact and coherence. Impact was not specifically included as at this stage of project implementation with a focus on two specific pilots, it is difficult to assess broader impacts in a higher-level assessment. Nevertheless, effectiveness and sustainability combined are indications for potential longer-term impacts. Coherence refers on the one hand to internal coherence, meaning with and between other Swiss funded interventions and on the other hand with other non-Swiss funded initiatives in and around the microinsurance space. This is beyond the mandate given to the reviewer and would form part of a more detailed design for phase 2. Nevertheless, references are made to other initiatives in several places in the market systems assessment and within this section.

The main tools used were desk reviews of project generated reports and a self-assessment which was carried out with the funder, SDC, the managing agent Swisscontact, and the two implementing partners PKSF and SFSA. Responses from the self-assessments were triangulated using three Focus Group Discussions (FGDs) with crop and livestock smallholder farmers in Nilphamari, Rangpur and Dinajpur Districts and 15 Key Informant Interviews (KIIs) with a cross section of insurance companies (ICs), Microfinance Institutions (MFI's), PKSF Partner Organizations (POs), the Department Livestock Services (DLS) and others. Furthermore, insights gathered from the Bangladesh Microinsurance Market Systems Analysis (MMSA), completed in March 2022, were fed into this assessment shaping recommendations on existing Phase I pilots and future intervention areas for a possible Phase II of BMMDP.

At the request of the managing agent Swisscontact, each of the four OECD DAC criteria had a focus on C1 and C2 addressing the key challenges and underlying systemic constraints of Bangladesh's microinsurance sector. However, at the time the self-assessments for C1 and C2 were completed these had not been identified or finalized as part of the MMSA. Those key challenges listed below in black were addressed using the self-assessments, KIIs and FGDs and those in **blue** (identified after the self-assessments were completed) were assessed only using KIIs and FGDs. A more detailed list of the key challenges and their underlying systemic constraints is provided in Annex 1.

- a. **Weak value proposition and innovation of microinsurance products offered by the ICs and MFIs e.g. lack of appropriate index-based crop insurance (C1 only) and risk mitigation services for livestock farmers (C2 only)**
- b. **Limited distribution mechanism for crop and livestock insurance**
- c. **Low demand for agriculture insurance amongst the target groups**
- d. **Absence of microinsurance regulatory framework and consumer protection law**

- e. Absence of functioning support service market for demand-driven product development
- f. Weak Claims Management Implementation Processes

### 3. Key Learnings from the Assessment

This section provides a detailed overview of the assessment results for each of the four OECD DAC criteria: relevance, effectiveness, efficiency and sustainability.

#### 3.1. Relevance

As per the OECD DAC definition, relevance refers to the extent to which a project design and its objectives respond to:

- a. the needs of the people;
- b. the priorities of public and private sector stakeholders; and
- c. the priorities of the development funder.

In addition to these aspects, we have specifically looked at the project's ability to address the microinsurance sector's key challenges and underlying systemic constraints

Our assessment perceives both C1 and C2 **to be relevant in general to the needs of the people** given Bangladesh is the seventh most climate vulnerable country in the world. The project addresses the key need of improving the resilience of crop and livestock farmers from climatic shocks, via the provision of risk mitigation tools.<sup>192</sup> No other effective risk mitigation/insurance services and products were available to farmers prior to BMMDP. However, whilst new crop microinsurance and livestock risk mitigation products are being developed there is further room to better tailor the products to meet the primary needs of farmers. For C1, 18 new product variations have been developed yet the expansion into new priority crops has been comparably slow. The overall value proposition for the farmer is not as high as it could be as covering weather risks is not the only priority need (others include failed seed germination, diseases) and key weather perils such as damage from hail storms are not yet covered. For C2 one livestock risk mitigation product is offered by MFI's for beef fattening and dairy cow rearing which is highly relevant, but no new products have been developed for dairy, goat, sheep and poultry. The existing product coverage could further be increased to not only addresses death of the livestock, but also accidental death or injury from wild and stray animals, production losses and uncertain animal health treatment costs, which seem to be very high on the priority needs list of farmers.

The distribution channels being used for both C1 and C2 broadly speaking meet the farmers' needs. In C2, model 1 (via PKSF POs) and model 2 (via Department of Livestock Services – DLS) seem to meet the needs of the farmers, whereas Model 3 (via POs but with private sector extension services) is proving less relevant to the farmers as they prefer to use informal/freelance healthcare providers that service their needs at their doorstep rather than having to travel to obtain the service. COVID-19 has likely affected the potential of model 3 to properly develop and should be further tested with COVID restrictions easing.

C1 and C2 **are in general terms aligned to Bangladesh's public and private sector stakeholder priorities**. They address climate change impacts which are very high on the agenda for both. Furthermore, the GOB has highlighted in the 8<sup>th</sup> Five Year Plan (2020-2025) and other plans and policies the importance of insurance products and services. However, both the private and public sectors also recognise that the policy for microinsurance is lacking, including individual policies for agriculture and livestock; however there has been very limited action with the regulatory environment still not sufficiently conducive for the development of the sector.

C1 and C2 **are very much relevant to the priorities of SDC**. The project is aligned to SDC's priorities outlined in its International Cooperation Strategy 2021 – 2024 (page 15) which has climate change and mitigation strategies as one of its four key objectives. The SDC Asia Guidelines 2021 – 2024 specifically mention the importance of

<sup>192</sup> Germanwatch. 2021. Global Climate Risk Index (CRI) 2021. Who Suffers Most from Extreme Weather Events? Weather-Related Loss Events in 2019 and 2000-2019. Briefing Paper. January 2021.

innovative instruments for climate change adaptation and Switzerland's added value of having a strong expertise in innovation related to financial instruments, including microinsurance. The two SDC global programmes for climate change and for food security have further a strong focus on innovation and insurance and can provide insights and learnings to BMMDP, as well as benefit from BMMDP experiences.

**Where C1 and C2 are less successful, is the ability to address the microinsurance sector's broader key challenges and underlying systemic constraints.** Whilst their individual Theory of Change (TOC) are relevant in addressing the development of microinsurance products for smallholder farmers, low demand for agricultural insurance, and limited distribution channels, the TOCs do not articulate how each component will address the other key challenges and systemic constraints such as absence of microinsurance regulatory framework and consumer protection law, absence of functioning support services for demand driven product development, and weak claims management implementation processes. For example, the TOCs articulate 'improved services' however only for financial literacy and extension services to farmers. They do not articulate other critical missing support services needed for the pilots to be sustainable or for the sector to grow. They also detail 'increased capacity of market actors to offer microinsurance products' but do not articulate how this will be sustainably achieved e.g., via development of commercially viable supporting services such as provision of data and market insights, actuary services, product development support, provision of technology solutions.

Our view is that this is not primarily a failure in delivering on the mandate on the side of the implementing partners and the managing agent, but roots more in the design of the project and the way it is set-up. The implementing partners are successful in achieving the quantitative targets set and the management agent provides the necessary support for this to take place, but the mandate, incentives, and capacities of the implementing partners to work more pro-actively on systemic constraints are limited. At the same time, it is also important to underline that a pilot phase does not necessarily have high systemic change ambitions, but focusses on specific aspects it wants to proof and then later anchor them within the system. While this certainly applies to BMMDP phase 1, we believe that a more systemic perspective would have supported to strengthen relevance, effectiveness and sustainability.

As referred to in the introduction chapter, the design challenges are connected to the evolution of the project. We consider the following the most relevant in this regard:

- **Retrofitted governance:** BMMDP grew from two smaller pilots initiated through SDC head office, and have expanded to a project under one umbrella with a management agent put on top, partially due to limited capacity at SDC Bangladesh level to drive the project administratively and thematically. This makes relationships between funder, management agent and pilot implementers potentially difficult as lines of influencing and levels of independence have changed over time.
- **Main focus on proof of concept, rather than addressing systemic change constraints:** Until this current MSA was completed, no thorough market systems analysis had been completed resulting in only a few key challenges being addressed. The scale and complexity of these challenges may be the reason to not address them in an initial pilot phase, but if more broader and sustainable results are to be achieved, they need to be tackled more pro-actively, within the frame of possibilities for a development partner of the size and weight of SDC.
- **Not sufficiently designed based on demand with beneficiary risk needs at the core:** For example priority risks of smallholder crop farmers not addressed are specific perils such as hail damage or coverage of crops damaged (yield loss) from non-weather factors such as pests and diseases. For smallholder livestock farmers the pilots do not address injury or the cost of animal health medicines which are a much greater risk to farmers than death of the animal. This is partially normal and part of a learning journey of a project, but needs to be addressed with view onto a second phase, if demand is to increase more significantly.
- **Limited understanding of inclusive market systems development (ISD) at the level of the implementing partners:** While Swisscontact belongs to the global leaders on ISD and has proven the application of the approach in Bangladesh on many fronts, the two implementers have limited capacity and incentives to apply ISD in practice, which affects their ability to support crowding in and copying of other market actors.

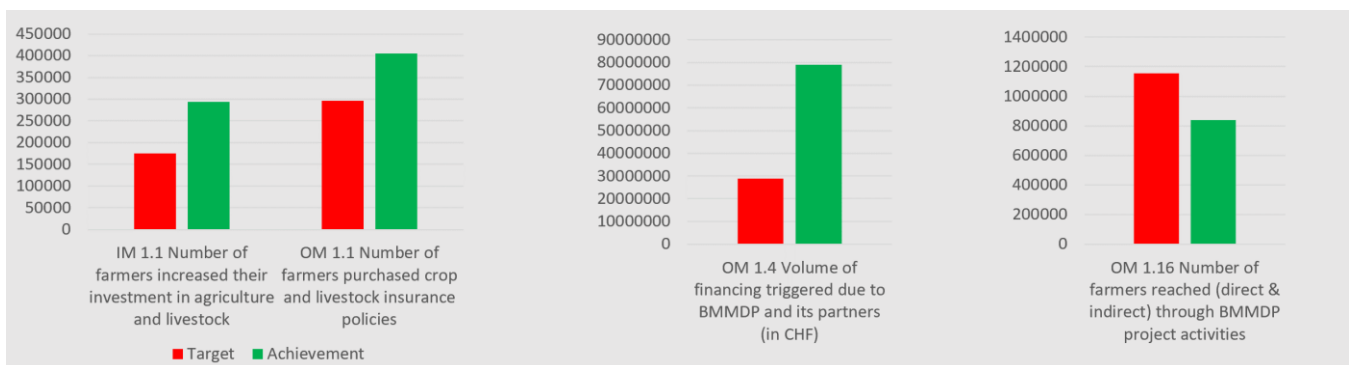
- Conflicts of interest:** The two pilot implementers potentially have certain conflicts of interests. Both are to an extent service providers with an interest to add microinsurance to their own portfolio and hence with limited interest to broaden crowding in from others (e.g. PKSF) or, as in the case of the SFSA have a certain incentive to push the delivery channel connected with their commercial parent enterprise more than any of the other channels. This is evidenced in the results of the number of policies sold via this channel to date. At the same time, SFSA’s connections to their parent enterprises and the fact that microinsurance could become part of the service portfolio of PKSF POs were key elements for selecting them as implementers, as they had the potential for quick and successful testing.
- Lack of focus on policy dialogue:** In particular for a project engaging in a nascent and underdeveloped market with key bottlenecks at the policy level, it is crucial that SDC as the bilateral partner can take on a more proactive role in terms of door opening and facilitation. This is a function which simply cannot be delegated out to an NGO management agent as they will never be perceived in the same way as Switzerland as the official bilateral donor. SDC’s role is needed to support the successful implementation of a policy intervention.

### 3.2. Effectiveness

Effectiveness refers to the extent to which an intervention achieved, or is likely to achieve, its objectives, and its results, including any differential results across groups. Specifically, the BMMDP MMSA Study Team were keen to understand whether the key challenges mentioned in Section 3 above are being addressed; whether targets will be achieved; and the effectiveness of transversal themes, best practices and lessons learned from BMMDP.

Overall, we are of the opinion that the project achieves the mandate it was given:

- The project is likely to achieve or overachieve its quantitative targets for both components: As of December 2021, the number of farmers with increased investment in agriculture and livestock stands at 170% of the targeted 174,750 farmers. The number of farmers who have purchased crop and livestock insurance is 136% more than the LogFrame target of 296,000. The volume of financing triggered due to BMMDP and its partners is almost triple to what was planned. Where the project still has some catch up work to do in the remaining time is in terms of outreach...the target is currently at 73% of achievement, but is likely to get close to 100%.



- The project is in general effective in addressing transversal themes.
  - Gender:** C1 and C2 are likely to achieve their quantitative gender target, which is good news. The review team considers this to be rather coincidental – many livestock farmers and MFI clients are female dominated, with women being the key loan taker for new livestock – rather by conscious design backed up by an ambition for more transformational changes in terms of gender equality. There are in our view only limited pro-active strategic contributions to increased resilience, empowerment or transformation of gender or social inclusion aspects. A more conscious and strategic approach to Gender Equity and Social Inclusion (GESI), starting with a detailed analysis and including GESI-sensitive product design and respective capacity building, would be key for a next phase of BMMDP.

b. *Climate change*: as a transversal theme this is at the heart of the relevance of BMMDP, however C1 and C2 are not effectively influencing the broader climate change debate in Bangladesh as policy dialogue is under-prioritised in the design.

c. *Governance*: could in our view be strengthened by adopting a more conscious systems approach avoiding potential conflicts of interests, working with regulators (Insurance Development & Regulatory Authority (IDRA), Microcredit Regulatory Authority (MRA), Bangladesh Bank) and key government influencers on an improved enabling environment. Increasing transparency and collaboration at all levels of actors is much needed. While component 3 of BMMDP – which did not form part of this assessment – has incorporated and is addressing some of the governance and policy issues towards the end of the phase (extension period), the connection to C1 and C2 is not strong enough at this stage of the phase.

3) The project is partially effective in addressing some of the key challenges listed in section 3 and further explained in the MMSA.

Each pilot manages to introduce a new microinsurance product for poor farmers in Bangladesh supporting their overall resilience, offering a solution to key challenges of a lack of appropriate product for index-based crop insurance and a lack of risk mitigation services for livestock farmers. However, both have not yet managed to address the currently weak value proposition and innovation of microinsurance products offered by ICs and MFIs in Bangladesh. While C1 is currently providing Weather Index-Based Crop Insurance (WIBCI) for crops and also including coverage for the cost of agro inputs, thus improving the value proposition, the WIBCI products do not cover the most sought-after perils such as damage from hail storm crops damaged (yield loss) from non-weather factors such as pests and diseases. While C1 has successfully engaged two ICs (Green Delta Insurance Companies - GDIC and Sadharan Bima Corporation - SBC) to develop products however it has not yet managed to engage MFIs in developing products. MFI's in C1 are only used as distributors. Engaging MFI's in product development with ICs has the potential to ensure products are developed with the needs of their customers in mind, thus having more attractive value propositions, and encourages more innovative partnerships.

C2 has partially been effective in offering risk mitigation services to livestock farmers, but they do not fully cover farmer needs. For example, the products covers incidents of death of the animal which is rare but not accidental death and injury from stray and wild animals, milk production loss, pregnant cows miscarriage, loss of unborn calves, and the cost of medication. All of these are mentioned as important risks for livestock farmers.. C2 has not yet engaged any ICs or MFIs in product development.

Both components are partially effective in addressing the limited distribution mechanisms for crop microinsurance and livestock risk mitigation services. For C1 crop microinsurance products have been effectively distributed via MFIs, Farmer Hubs and Syngenta's retail agro-input outlets. However, C1's predominant distribution channel is via their own retail outlets or their funded farmer hubs. SFSA have not yet managed to significantly engage other commercial actors to distribute the crop microinsurance products. For C2 PKSF's Model 1 distributing through their own Partner Organization (POs) MFI Network is working well. however their other two models have not been successfully supported and are currently still underperforming in terms of offering different distribution channel options. Model 2, using the Department of Livestock (DLS) is only partially performing, operating within government mandatory services in Nilphamari but not in the other two districts covered by the component. Cost and the hassle associated with livestock transportation are cited as the main reasons farmers are reluctant to engage DLS. Also, inadequate manpower of DLS between different districts has impacted this model achieving targets. Model 3 is not performing at all. There has been no formal inclusion of private partners. Private partners are being approached by PKSF however budget shortfalls and low manpower are reasons cited by the private sector for not collaborating i.e., incentives are not aligned.

In terms of latent demand for agriculture insurance amongst target groups, with a focus on awareness creation and insurance literacy, we consider awareness raising beyond those who have purchased crop insurance in the C1 pilot areas to be successful with farmers motivated to purchase crop insurance. However, for C2 there is limited

evidence of awareness raising beyond those farmers who are engaged in the pilot. Furthermore, for both C1 and C2 financial / insurance literacy amongst farmers has not yet been addressed successfully. Farmers engaged in both pilots currently do not always fully understand the terms and conditions of products and services. **Most farmers think it is a form of credit, not insurance, or are unable to explain how the insurance product will benefit them.** This has been compounded by the fact that COVID-19 has made training and in-person awareness raising difficult given the lockdown restrictions.

Some key challenges, where BMMDP has so far not been successful to trigger much change are:

- i. The absence of microinsurance regulatory framework and consumer protection law. C1 nor C2 do not advocate for changes in the enabling environment, such as the lack of clarity about microinsurance provision through MFIs, or and any clarity on microinsurance policies for the agriculture and livestock sectors. **Neither SFSA nor PKSF have used their influencing powers to develop inter-agency coordination mechanisms needed to commence much needed policy dialogue.** They have not partnered with local meso level organizations such as the industry association Bangladesh Insurance Association (BIA) to build their capacity in advocating for change.
- ii. Absence of functioning support service market for demand-driven product development. Both components have not yet engaged private sector players to develop critically lacking support services that are needed to support demand-driven product development. For example: commercially driven suppliers of data and market insights for the sector to develop demand-led products and for use by policy makers for evidence-based decision making; private sector actors to provide product development support to ICs and MFIs; and effective providers of professional microinsurance skills.
- iii. **Weak Claims Management Implementation Processes.** C1 and C2 have not yet engaged to build the capacity of ICs (skills and mindset) to integrate automated systems for claims settlements. They have also failed to incentivise local tech organisations to provide ICs with the support to develop technological solutions that make their insurance processes more efficient. Finally they have not addressed the inadequate technical resources such as the supply of cost effective and rapid weather data.

At the same time it is important to be realistic about what is possible to achieve in above areas with two pilot interventions under the BMMDP umbrella. The first challenge has been there for decades and is not going to be solved overnight, whereas the other two challenges need a different way of working based on inclusive market system principles. In order to be successful in at least starting to address challenges, a different design and project set-up will be key.

- 4) BMMDP has been successful in producing a range of important best practices and lessons learned which will benefit the overall micro insurance market system in Bangladesh. In order for this to happen, there is still some important capitalization, documentation and communication work to take place. Some of these include:
  - The involvement of end users in the design of the insurance product is crucial in order to maximise demand orientation.
  - The distribution partnership with MFIs and agri-input companies offers easy and quick access to farmers, but it needs to be built on clear commercial incentives in order to offer a sustainable model.
  - Bundling microinsurance with other services can increase adoption. For example C1 is bundling crop microinsurance products with Outbound Dialing services or agri-inputs, or for C2 bundling risk mitigation services with credit and extension services for livestock.
  - Agri-input companies as distributors of microinsurance can increase sales of products (including slow moving products) by 10% to 15% by bundling these with microinsurance.
  - Product promotion and dissemination should be accompanied by appropriate training and capacity building of frontline sales / distribution teams to ensure they are able to communicate to farmers on the benefits and conditions of policies.
  - The importance of peer learning mechanisms (word of mouth, testimonials etc) for farmers and their ability to increase trust in the insurance product.

- The involvement and buy-in of the regulator is key to having more leverage over key stakeholders, such as for instance the DLS or Agricultural Extension.

### 3.3. Efficiency

Efficiency refers to the extent to which an intervention delivers, or is likely to deliver, results in an economic and timely way. In particular, we are keen to assess how efficient C1 and/or C2 are in using donor subsidized resources to address the systemic constraints and how efficient the components are in facilitating the private sector to address the systemic constraints in each of the crop and livestock markets. We did not carry out any detailed value for money assessment, as this would have gone beyond the scope of the assignment.

The current set-up with a management agent and two pilot implementers increases the overall delivery costs of the project and makes overall steering challenging, not because such set-ups never work, but because of the way it came into existence over time. If the microinsurance market system is to be influenced towards more pro-poor systemic change, it is important that intervention design, implementation, monitoring and adaptation run efficiently based on clear management and implementation processes. The management agent which has a strong implementation track record and experience with facilitating complex change processes is not able to fully bring in these capacities, as implementation on the ground is mainly carried out by the two pilot implementers, who do not have as strong a track record when it comes to facilitating systemic change processes. SDC’s own role is in our view not active enough which affects the project’s potential leverage in terms of policy dialogue. Key to the success of BMMDP is for SDC to be proactively instigating dialogue with national level policy makers.

An interesting observation was made in terms of additionality with the implementers claiming that they would carry on with the pilot even without further support from SDC, although it was not made clear how this would be further financed. This is a clear sign of the need to adjust the current set-up with PKSF and SFSA as implementers and use the funding more efficiently.

Efficiency also refers to how different partners can leverage their strength to deliver quality results. The table below shows where the strengths of each partner lies, and it puts that into relation with the current role. What it shows is that the partners are not able to use their own strengths efficiently and effectively affecting the overall efficiency of the project. The table explains how we would propose to adapt roles for the remainder of the phase with a view on a potential future phase 2.

Table 3: BMMDP Key Actors Strengths, Current Role and Proposed Adaptations

Project Actor	Strengths	Current Role	Proposed Adaptations
SDC	<ul style="list-style-type: none"> <li>▪ Strong track record in BD with portfolio in E&amp;I, governance</li> <li>▪ Increased interest and capacity on climate change</li> <li>▪ Honest broker, ability to work and influence at all levels, in particular policy level</li> </ul>	<ul style="list-style-type: none"> <li>▪ Funder</li> <li>▪ Initial design</li> <li>▪ Steering committee member</li> </ul>	<ul style="list-style-type: none"> <li>▪ Policy dialogue enabler</li> <li>▪ Lead in steering committee</li> <li>▪ Strategic partner</li> <li>▪ Provider of expertise (e.g. global programme)</li> </ul>
Swisscontact	<ul style="list-style-type: none"> <li>▪ Experienced project implementer with long-standing track record in BD</li> <li>▪ Global reference on ISD</li> </ul>	<ul style="list-style-type: none"> <li>▪ Management agent</li> <li>▪ Steering</li> <li>▪ Some technical support to C1 and C2</li> <li>▪ Some policy outputs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Intervention design and market facilitation based on ISD best practice</li> <li>▪ Project manager, rather than managing agent</li> </ul>
SFSA	<ul style="list-style-type: none"> <li>▪ Expert in sustainable agriculture</li> <li>▪ Expertise in microinsurance</li> <li>▪ Connected to Syngenta as commercial parent company for crop-related inputs</li> <li>▪ Excellent network of approximately 11,000 via Syngenta’s Krishite retail agents for distribution of microinsurance</li> </ul>	<ul style="list-style-type: none"> <li>▪ Main crop pilot implementer</li> </ul>	<ul style="list-style-type: none"> <li>▪ One of several implementing partners based on ISD deal making</li> </ul>
PKSF	<ul style="list-style-type: none"> <li>▪ Apex body for microfinance in Bangladesh with large network in Bangladesh</li> <li>▪ Independent government body funded by GOB</li> </ul>	<ul style="list-style-type: none"> <li>▪ Main livestock pilot implementer</li> <li>▪ Provides loan capital for own POs to extend loans</li> </ul>	<ul style="list-style-type: none"> <li>▪ One of several implementing partners based on ISD deal making</li> </ul>

	<ul style="list-style-type: none"> <li>▪ Excellent network of 200+ member MFIs for distribution of microinsurance</li> </ul>	<ul style="list-style-type: none"> <li>▪ Provides Covariant Risk Fund (quasi reinsurer role for own POs)</li> </ul>	
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We believe that the project would benefit from a restructuring of the management set-up with Swisscontact as the main implementing agency managing a portfolio of microinsurance pilots applying ISD and strongly working on policy dialogue, using the knowledge of the pilots. SFSA and PKSf should remain important parts of the project, but not within the management set-up. It will be important to ensure that such a change in role for a Phase II is done with sensitivity. This will ensure that any potential loss of influence for SFSA and PKSf is managed well. Emphasis on their change of role due to a broader sector mandate and a different way of working, strongly needing ISD expertise in day-to-day management, will assist in this process.

In terms of official project anchor, it is recommended to not host the project in two different places, including the NGO affairs bureau in a potential phase 2. The project needs to be under one single umbrella organization, ideally very near or within the public sector. The right location of the public sector anchor needs further analysis, in particular weighing potential leverage in terms of policy dialogue against risks in terms of 'loosing' flexibility for adaptive management working closely with the private sector. The Financial Institutions Division under the Ministry of Finance appears to be the most promising option, but there may be others which need to be carefully assessed in collaboration with SDC.

### 3.4. Sustainability

Sustainability refers to the extent to which the net benefits are likely to continue beyond the duration of the intervention. At the heart of this are the building up of structures, processes and capacities which take up the support facilitated through the project, adopt and adapt it over time in order for the end beneficiaries to benefit in the long-term. This usually implies changes in policies and the enabling environment, and at the same time changes in the capacity of service providers within the market system.

While it is good news in terms of sustainability that PKSf and SFSA are keen to keep on delivering the microinsurance services even without SDC funding, many key elements which need be in place for sustainability to be achieved are not yet there. This is partially understandable at an early phase of an innovative project, particularly in a challenging and nascent environment, but could and should be pushed more in the remainder of the phase.

Here are some of the main learnings why we believe that sustainability is possibly not as far advanced as it could be:

- A thorough analysis of the key challenges and underlying systemic constraints was not conducted for C1 and C2. As a result, many supporting services (product development support, capacity building, support for technology development, providing of data and market insights etc) that are critical to the sustainability of each pilot and for the development of the sector have not been addressed (see relevance and effectiveness section)
- Those key challenges that have been addressed have not fully been addressed with a market systems lense. For example, neither pilot have developed a sustainable mechanism for raising awareness of the benefits of microinsurance beyond the project funding.
- Both C1 and C2 have only to a limited extent identified the incentives for long-term provision of microinsurance products and services for ICs, MFIs, DLS and private animal health and vets. The incentives remain unclear, which is surprising for a project which has been running for several years now. As a result, the implementers of C1 and C2 have only limited engagement with a diverse range of market actors to address the numerous systemic constraints from different trigger points. C1 has engaged limited actors for either product development (two actors) or for distribution. In C2 the situation is similar with MFIs being the bulk of partners engaged purely for distribution. Neither have engaged other local actors to address capacity development, advocacy, technology support, data and market insights. We believe that a more diverse range of actors and multiple trigger points is key for achieving sustainability.

- Both implementers are only to a limited extent working in a facilitative manner, rather they are delivering services which should/could to be provided by commercial actors in the future. They are not proactively incentivising and facilitating new private sector players to enter the market. For example, SFSA provides data to GDIC for claim settlement, but this data is not made available for purchase on a commercial basis as it is funded by BMMDP. SFSA is also developing an IT Platform called 'Resilience Engine' used to implement and monitor all activities of their crop microinsurance pilots but is not engaging local insurtech providers to build their capacity or a private sector actor to use this on a commercial basis. This issue of program implementers being market actors needs to be addressed if systemic changes and sustainability are to be achieved.
- The microinsurance market in Bangladesh is challenging and nascent, having ICs on board is critical. Neither C1 or C2 are addressing the issue of IC's not believing microinsurance can be a profitable sector or assisting them build their capacity to understand the market potential. C1 is engaging only two insurance companies and C2 none at all.
- Achieving sustainability will also require C1 and C2 to stimulate demand for the microinsurance services by aligning them to the needs of clients / beneficiaries. As detailed above in relevance and effectiveness most products in C1 and C2 only address the primary needs of the beneficiaries to a limited extent.

## 4. Conclusions & Recommendations

As above explanations show, we are of the opinion that the BMMDP project has delivered in general what it was mandated to do, but it could have achieved more with a different design and a different set-up. It has generated interesting experiences and has successfully proven the concept for micro insurance in selected areas of the crop and livestock markets. A phase 2 would allow to make use of these experiences, feed them into the policy framework, innovate further and overall increase development effectiveness and value for money of what was started in phase 1.

Therefore, we are of the opinion that BMMDP should:

8. Go into a Phase II, but with a considerable re-design based on ***inclusive systems development (ISD) principles and incentives***.
9. ***Take the role of neutral facilitator***, a key part of an ISD approach. This will assist BMMDP avoid being engaged in any conflict of interest, either institutional or as an actor in the microinsurance market.
10. Have a ***dedicated, but realistic intervention to contribute to a more conducive microinsurance regulatory environment*** which will bring structure, purpose and consistency to the advocacy process and ultimately influence the enabling environment. Having the ***right implementation team*** who can engage at policy level convening different interests will be advantageous to BMMDP. Securing the opportunity for SDC in Bangladesh to play a proactive role influencing policy dialogue is key.
11. ***Leverage the comparative advantage of SDC and Swisscontact's expertise*** in microinsurance and market systems development globally and regionally.
12. ***Anchor the project within the relevant government system after further careful risk and opportunity assessments***, rather than in the NGO affairs bureau in order to get access to key policy decision makers.
13. Have an implementation set-up which is ***leaner with a project implementer with ISD delivery capacity*** as the main delivery channel. Swisscontact does in our view have the capacity and track record to perform such a function.
14. Both SFSA and PKSF could have key roles in a potential Phase II, but ***agreements should be based on best practice for deal making according to ISD principles***, e.g., commercially driven partnership agreements, rather than rigid implementation arrangements which do not reward performance in terms of systemic change and market facilitation.
15. Open a ***sector portfolio*** which includes the current pilot sub-sectors of crop and agriculture but adds some of the key potential sub-sectors identified in the MMSA. This allows an approach to microinsurance from several angles and an appropriate diversification of risks. Diversification of sectors is key i.e whilst agriculture is a key sector of Bangladesh's economy, developing microinsurance products in agriculture are known by insurance experts as being the most complex and difficult. It is recommended other non-agricultural sectors are considered such as light engineering, furniture and retail (incl. micro-merchants)

### Recommendations for remainder of Phase I:

1. Before finalizing what can be done in the remainder of Phase I, it is important to decide in principle on the possibility of a Phase II of BMMDP. This will inform what can be done in the remainder of Phase I.
2. Should a decision not to proceed to a Phase II be given, the short amount of time (4 months for C1 and 2 month till the 2 year end contract for PKSF) remaining for Phase I of BMMDP is not sufficient to make any changes or minor tweaks to the current activities.
3. There is limited time left in the current phase and contracts with implementers are in place until end of the phase, so only limited changes are possible to boost effectiveness during this phase. Hence, we recommend:
  - a. To focus on engaging the government in a way for setting up phase 2 in an optimal manner under one umbrella
  - b. To engage with regulators for the identification and prioritization of policy areas the programme can realistically focus on for phase 2

- c.** To capitalise on experiences and evidence and prepare knowledge products ready for dissemination through the right channels, in particular with a view of incentivising more private sector participation in phase 2.
- d.** Further engage with DAE and DLS for collaboration in the frame of phase 2 further supporting the scaling of the insurance pilot in crop and livestock.
- e.** Build ISD capacities and understanding with close potential implementation partners in preparation of phase 2.
- f.** Fully capitalise on global knowledge and experience from SDC, Swisscontact and others with regard to strengthening microinsurance markets around the globe and prepare knowledge products for the Bangladesh context.

## Annexures (Part B)

### Annex 1: Bangladesh Microinsurance Sector Key Challenges and Underlying Systemic Constraints

Key Challenge	Systemic Constraint	Elaboration of Constraint
<b>Absence of micro-insurance regulatory framework and consumer protection law</b>	Absence of policy related to i. Micro-insurance ii. Agriculture and Livestock insurance iii. Actuarial product development and approval process	Lack of initiative from the govt. due to lack of coherent information on economic benefits of insurance at a national level
	Claim settlement regulation is not customised for agriculture sector	
	Regulation related to social/rural sector insurance (Section 6 of Insurance Act 2010 and gazette notification) is not enforced	Coherent information on economic benefits of social/rural sectors is not available with regulators for monitoring and enforcement purposes
	Ambiguity in Insurance Act 2010 and Clause 24(H) of MRA Act 2006	Lack of inter-agency coordination and collaboration, and absence of data to inform evidence-based policy decisions, has resulted in fragmented incentives
<b>Absence of functioning support service market for demand-driven product development</b>	Limited availability of historic weather data for product development	Limited infrastructure for gathering weather data in the country
	Existing microinsurance products that do not meet the needs of low-income households	Lack of innovation and product development support and know-how leaves the sector with poor product offering
	Unavailability of actuarial services in the market	Limited initiatives (education, training) and incentive to promote actuarial services in the country
	Limited local reinsurance capacity	Low market demand for reinsurance in agriculture insurance and inadequate technology and skilled manpower to offer reinsurance services for agriculture insurance
	High VAT (15%) on premium increases the product price	Govt. does not provide any subsidy for agriculture insurance premium
	Expensive and inefficient asset identification process (i.e., livestock)	Lack of cost-effective asset identification methods for micro-insurance products
	Rigid tariff system (by CRC) limit customization of product pricing and business acquisition	Insurers are obliged to follow the rates set by the Central Rating Committee
<b>Low demand for agriculture insurance amongst the target groups</b>	Lack of trust and awareness on benefits of microinsurance	Limited initiatives (campaigns, literacy programmes, marketing) to increase awareness of the economic benefits of availing microinsurance products
	Weak value proposition of the microinsurance products offered by the insurance companies	Lack of demand-driven microinsurance products offered by the insurance companies
	Lack of communication between insurance companies and target groups	Limited visibility/ representatives of the insurance companies in the field

<b>Limited distribution mechanisms for agriculture insurance</b>	Insurance companies reluctant to serve the pro-poor markets and rural sectors as per the regulation	Perceived low returns from agriculture microinsurance products by the insurance companies
	High operational cost of insurance companies to expand distribution network	Regulations limit innovation in distribution partnership for service delivery
	Inadequate incentives for channel partners to sustainably promote microinsurance products	Fixed commission rate structures mandated by IDRA limits business incentives for channel partners
<b>Weak Claims Management Implementation Processes</b>	Prevalence of manual claim administration processes at insurance companies' end	Insurance companies lack technical capacity (skills and mindset) to integrate automated system for claims settlement
	Prevalence of manual pay-out process at the insurance companies' end	Insurance companies lack mindset to integrate automated system for pay-out
	Bureaucratic process at insurance companies ends regarding claim settlement documents requirement	Rigid policies of insurance companies regarding claim settlement
	IDRA lacks technical oversight capacity in monitoring weather data for ensuring payment triggers	Inadequate technical resources (technology and skills) to oversee payment triggers

## Annex 2: Phasing of Recommended Interventions

Table 1 outlines strategic interventions and corresponding indicative activities for a possible Phase II of BMMDP. The activities distributed across three-time frames: i) those ‘immediate term’ that could commence immediately as part of Phase I; ii) those ‘short-term’ for the first two years of Phase II; and iii) those ‘longer-term’ for years three and four of Phase II.

A key aspect of implementing these activities will be to ensure the project team has sufficient human resources with the right skills. This is particularly relevant for those activities being recommended for the remainder of Phase I as many of these will fall on Swisscontact as the managing contractor rather than the existing two implementers. If it is not possible to commence these activities in Phase I, they will start only when Phase II commences. The one activity in **blue** could occur in the existing Phase I regardless of whether or not a Phase II is approved.

A further point for consideration is that the proposed redesign and activities will result in less direct beneficiaries, however when considering indirect beneficiaries potentially more in the medium to longer term. Whilst the intervention “*Innovative Product and Service Incubation,*” will reach direct beneficiaries via some of the product development and distribution focussed pilots, not all pilots for supporting services will initially result in direct beneficiary results.

Table 1: Overview of BMMDP Strategic Interventions and Indicative Activities - Immediate, Short and Longer-Term (2022- 2027)

INTERVENTION AREA	INDICATIVE ACTIVITIES		
	Immediate-Term (Remainder of Phase I)	Short-Term (2023/24 to 2025/26)	Longer-Term (2026/27 – 2027/28)
<p><b>Provision of Data and Market Insights</b></p> <p>Improving the access and use of data and market insights for development of the microinsurance market</p>	<ul style="list-style-type: none"> <li>- Identify individuals and organizations who can work as change agents/ champions for microinsurance in Bangladesh</li> <li>- Agree on immediate, mid-term and long-term scope</li> <li>- Undertake stakeholder mapping exercise together with meso level actors like BIA</li> <li>- Support BIA to undertake a national needs assessment exercise to define priority data gaps based on international and Bangladesh data sets</li> <li>- Define partnership opportunities and roadmap for creating provision for data and</li> </ul>	<ul style="list-style-type: none"> <li>- Capacity building activities around the collection and use of data and insights for pricing and product development of microinsurance products</li> <li>- Explore possibilities of developing weather data and livestock mortality and morbidity table for Bangladesh (also feeds into pilot intervention below)</li> <li>- Finalize business model for digital dashboard</li> <li>- Create data architecture</li> <li>- Collect data</li> <li>- Develop data dissemination vehicles</li> <li>- Launch digital data dashboard</li> </ul>	<ul style="list-style-type: none"> <li>- Continue development of learning materials</li> </ul>

	insights for the microinsurance market in Bangladesh.		
<p><b>Development Partner Coordination and Sector Learning</b></p> <p>Improving development partner coordination, development project outcomes, and the ability to influence policy dialogue</p>	<ul style="list-style-type: none"> <li>- SDC to start facilitating development partner ‘Microinsurance/Insurance’ coordination meetings</li> <li>- Develop ‘microinsurance’ 20 years of development funding learning / knowledge piece</li> <li>- Identify key areas for co-investment opportunities with other development partners</li> </ul>	<ul style="list-style-type: none"> <li>- Develop intervention investment opportunity portfolio for future donor funding and/or private and public sector funding</li> <li>- Facilitate development of key learning materials including workshops</li> <li>- Lead implementation of development partner advocacy and coordination</li> </ul>	<ul style="list-style-type: none"> <li>- Continue activities</li> </ul>
<p><b>Building an eco-system of microinsurance for gaining customer trust through improved claims management process (includes technology-based pilots)</b></p>	<ul style="list-style-type: none"> <li>- Undertake stakeholder mapping exercise and scope potential partners</li> <li>- Develop business case, structure, investment criteria, objectives etc and structure for incubation fund</li> <li>- Identify technology based supporting services for improved claims management e.g. integrated claims management systems, digital asset identification etc.</li> <li>- Identify capacity building and technical assistance required for successful implementation partnerships</li> </ul>	<ul style="list-style-type: none"> <li>- Finalize partnership MoUs</li> <li>- Continue identify new partnerships and associate activities</li> <li>- Facilitate insurance companies to integrate automated claim settlement and pay-out system</li> <li>- Facilitate linkage among local service providers and MFS/aggregators and support insurance companies to adopt flexible option for claim settlement (e.g. cattle post-mortem report)</li> <li>- Capacity building and technical assistance activities implemented e.g. Build technical capacity (technology and skills) of IDRA to oversee payment triggers</li> <li>- Facilitate service market actors to develop cost-effective digital asset identification methods</li> <li>- Learning materials (case studies, other communication materials etc) → feed into all other interventions (institutional capacity development, microinsurance policy, data and insights etc)</li> </ul>	<ul style="list-style-type: none"> <li>- Continue development of learning materials</li> </ul>
<p><b>Innovative Product and Service Incubation</b></p>	<ul style="list-style-type: none"> <li>- Identify support services including technology based supporting services needed</li> </ul>	<ul style="list-style-type: none"> <li>- Capacity building and technical assistance activities implemented</li> <li>- Demonstrate the business prospects of microinsurance and facilitate innovative</li> </ul>	<ul style="list-style-type: none"> <li>- Learning materials (case studies, other communication materials etc)</li> <li>- Advocacy activities</li> </ul>

<p>Stimulate demand for microinsurance products through innovative partnerships and pilots that develop core market and supporting functions of microinsurance market</p>	<ul style="list-style-type: none"> <li>- Undertake stakeholder mapping exercise and scope potential partners</li> <li>- Develop business case, structure, investment criteria, objectives etc and structure for incubation fund</li> <li>- Identify capacity building and technical assistance required for successful implementation of fund / partnerships</li> <li>- Finalize partnership MoUs</li> </ul>	<p>partnerships between insurance companies and local distributors</p> <ul style="list-style-type: none"> <li>- Facilitate insurance companies to develop demand-driven microinsurance products (e.g. bundle/ embed essential risk coverage like health insurance)</li> <li>- Facilitate development of support service market (data provider, actuarial services, insurtech services) that enables innovative products tailored to the need of the customers</li> <li>- Facilitate market actors, such as IDRA, insurance companies, aggregators, agro-input companies, to conduct campaigns, literacy programmes, marketing activities</li> <li>- Collaborate with academic institutions for developing actuarial curriculum and offer degree program</li> <li>- Facilitate regulatory enforcement of professional actuarial services utilisation in the financial sector (e.g., Insurance product development, PF and gratuity valuation, stock market valuation, acquisition and merger)</li> <li>- Develop the reinsurance capacity (skills and technology) of SBC</li> <li>- Work with the industry and distribution partners for developing a commercially viable incentive structure for promotion of microinsurance products</li> <li>- Learning materials (case studies, other communication materials etc) → feed into all other interventions (institutional capacity development, microinsurance policy, data and insights etc)</li> <li>- Continue identify new partnerships and associate activities</li> <li>- Dialogue and action on development of government smart incentives</li> </ul>	
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<p><b>Facilitating Development of conducive microinsurance regulatory regime</b></p> <p>Improving policy dialogue on the importance of microinsurance and associated policy guidelines</p>	<ul style="list-style-type: none"> <li>- Identify government partners (incentives &amp; disincentives to participate) in multi-stakeholder taskforce</li> <li>- Develop business case (structure, objectives, participants, outcomes etc) for multi-stakeholder taskforce and development of microinsurance, agriculture insurance and livestock insurance policy guidelines. Commence advocating to key government actions</li> </ul>	<ul style="list-style-type: none"> <li>- Facilitate launch of multi-stakeholder taskforce</li> <li>- Facilitate capacity building activities for taskforce</li> <li>- Facilitate any other technical assistance needed for taskforce e.g. guidelines on product development</li> <li>- Facilitate policy dialogues, anchored by FID, with relevant government agencies and regulators</li> <li>- Develop microinsurance policy, agriculture insurance policy and livestock insurance policy. These policies should address all aspects, including but not limited to actuarial product development process, claim settlement, administration, distribution, etc.</li> <li>- Develop IDRA's oversight capacity with incentive for insurance companies to meet the regulatory requirements</li> <li>- Advocate with MRA and IDRA for developing favourable regulations that allow innovation in distribution with new distribution partners</li> <li>- Undertake a study to assess socio-economic benefits of microinsurance including agriculture insurance for the country.</li> </ul>	<ul style="list-style-type: none"> <li>- Continue relevant activities from short-term</li> </ul>
<p><b>Institutional Capacity Development</b></p> <p>Building capacity of a local meso level organization to advocate, coordinate and collaborate, and deliver microinsurance skills development</p>	<ul style="list-style-type: none"> <li>- Identify individuals and/or a subgroup within BIA and ABIA who can work as change agents/ champions for microinsurance in Bangladesh</li> <li>- Define partnership opportunities - agree on immediate, mid-term and long-term scope</li> </ul>	<ul style="list-style-type: none"> <li>- Finalize partnerships and MOUs (including activities)</li> <li>- Commence implementation of partnership agreement</li> <li>- Advocate to MRA and IDRA for developing favourable regulations that allow innovation in distribution with new distribution partners</li> <li>- Advocate with FID, BIA, and NBR to waive/minimise 15% VAT on agriculture insurance premium</li> <li>- Advocate for flexible tariff system to allow customisation of product pricing</li> <li>- Collaborate with academic institutions for developing actuarial curriculum and offer degree program</li> </ul>	<ul style="list-style-type: none"> <li>- Continue relevant activities from short-term</li> </ul>