COLOMBIA - TOWARDS AN INCLUSIVE AND UNIVERSAL INSURANCE SECTOR

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Towards an inclusive and universal insurance sector

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Executive Summary

The analysis of the degree of development of micro insurance market in Colombia varies depending on the concept of micro insurance that is adopted. In this diagnosis, we define micro insurance as opposed to massive low-cost insurance. The concern of highlighting the difference between mass and low-cost micro insurance is based on the fact that in Colombia an important part of the products that are classified as micro insurance, are for this diagnosis, "massive low-cost insurance." In the diagnosis, it is given prominence to the importance of assuring that micro insurance is defined and designed considering the target population to which it is addressed - the low-income population-, as it is set out by the IAIS. From this perspective, micro insurance is a sub-strategy part of a broader strategy aimed at promoting access to insurance for "all" the population that does not have access to insurance. In the diagnosis, we found that massive low-cost insurance have played an important role in Colombia to promote access to insurance for everyone. However, logic would assume that these products indirectly benefit the low-income population, since they are accessible and affordable. However, the problem is that these products are not designed considering the needs and characteristics of the low-income population. So, it is needed to add an additional ingredient for micro insurance, because not only must they be accessible and affordable, but they must be adapted to the needs and hardships of low-income population. The need to design specific products for the population is based on two axes: (I) the low-income population needs products that are more adapted to confront their real risk management needs, and the underlying reason for this is because micro insurance is not only promoted to improve levels of financial inclusion but to break the vicious circle between poverty and vulnerability. (Ii) The low-income population requires products which main guideline is simplicity and speed, both in product design, contract documents, including all applicable processes for using such products, such as payment of the claim. The problem in Colombia is that many of the massive low-cost insurance, adopt the same processes, deadlines and complex conventional insurance contract documents. Even the massive low-cost insurance in Colombia do not respect, in most cases, the characteristic of simplicity established by regulation. From this perspective, Colombia has grown when it comes to massive insurance offers, but this has not necessarily happened in the case of insurance that meet the specific needs of the target population for micro insurance.

Colombia, led by the insurance industry and without a specific regulatory framework, has significantly moved the agenda to improve access to insurance by the entire population forward, through the offering of massive low-cost insurance. A large number of insurance companies as part of their business strategy to expand its clientele, have promoted safe access to much of the population - including social class 1, 2 and 3 (the target population for micro insurance). The coverage for social class 1, 2 and 3 has been an indirect consequence, which not always responds to a widespread strategy to design products that meet the needs of said social class - except in some very specific cases. From this perspective, some insurance companies offer insurance products at affordable costs through easily accessible channels (massive low-cost insurance), under the category of micro insurance. We recognize the important role of the insurance industry on moving the agenda of access to insurance for the entire population of Colombia forward, situation that is highlighted as a distinctive feature of the Colombian case.

Nonetheless, we notice that moving this agenda forward does not necessarily coincide with moving forward the agenda of what is meant in this diagnostic by micro insurance.

.... However, this development does not necessarily coincide with the growth of responsible micro insurance market in the country. According to figures from FASECOLDA, in Colombia there were 6.09 million risks insured by a policy of micro insurance, which corresponded to a penetration rate of 16.1%. However, during the making of this diagnosis it was found that this figure is composed not only of micro insurance considering the definition of the diagnosis, but also of massive low-cost insurance. For this diagnosis, the development of a responsible micro insurance market means not only the offering of products of low-cost insurance through channels accessible to low-income population, but also insurance products designed considering the needs, characteristics, living conditions and hardships of social class 1, 2 and 3 of the population. From this perspective, it is impossible to determine clearly what is the status of the micro insurance market development, since a great part of the insurance products that are catalogued as micro insurance by the industry, are in reality massive low-cost insurance.

An important part of the products currently offered as micro insurance are products of low value for social class 1, 2 and 3 because they have not been designed taking into account their particular needs. Some of the products of micro insurance that are currently accessible and affordable to social class 1, 2 and 3 are not designed to meet their needs and do not consider their characteristics and hardships. This happens because: (i) no demand studies are carried out; (Ii) there is little diversification of products, most are life insurance and personal accident, that although are needed according to what is indicated in the study of demand, are not the only products they need; (Iii) low rates of renewal indicate, among other reasons, a lack of suitability of these products, this low persistence is evident even in state-subsidized insurance; (Iv) low accident rates show excessive administrative costs and/or marketing and/or lack of knowledge thereof; (V) the high costs of distribution, as much in terms of commissions as in massive marketing channels are transferred to the consumer, this leads to a difficulty for the insurance company both financially and operationally and a brake on the expansion of insurance services for low-income households; (Vi) there is an underuse of channels having potential reach in social class 1, 2 and 3; (Vii) difficulties arise when collecting premiums; (Viii) contract documents, as well as some applicable procedures are not always straightforward and are not designed keeping in mind the hardships of the target population; and (ix) most products are group insurance or collective, where the "aggregator" operates as policy taker, hampering consumer protection either because the aggregator does not always inform the insured the conditions of products through individual certificates; and the policy lacks simplicity in general.

There are positive aspects on the offer of micro insurance that are recognized in this diagnosis: life insurance, which is widely offered, is insurance that is demanded by the target population; much of micro insurance products offered are of voluntary character; and various alternative channels are used to distribute these products. Life products are of great interest to social class 1, 2 and 3, and these are widely offered. However, while these products meet real needs for social class 1, 2, and 3, the coverage and how they are offered are not always ideal. On the other hand, a significant percentage of products classified as micro insurance by the industry, are voluntary and not mandatory products.

Additionally, the Colombian industry has made efforts to use innovative distribution channels.

Through the creation of the Micro insurance Committee (CM), FASECOLDA has sought to create awareness about the importance of designing micro insurance products that really meet the needs of social class 1, 2 and 3. The insurance industry has voluntarily decided to join efforts to move the agenda forward on the access to insurance in Colombia through their union, however, they don't always coincide with said union's position. While different views coexist on the concept of micro insurance by insurance companies, which affects the consistency of the information they provide to CM, FASECOLDA designed a definition of micro insurance stressing the importance of ensuring that micro insurance products are aimed at low-income population. Although the industry has adopted data collection tools through the CM, there is no consistency in the way they are collected and statistics are compiled, there is a lack of detailed information and also, not all companies get involved. Yet despite such problems, these efforts and good practices show the potential of auto-regulation that the insurance union has in Colombia.

The Colombian government has been involved in recent years to promote the development of micro insurance in Colombia and has increased the supply of products that are really intended for social class 1, 2 and 3. This has been done not only through the analysis and adoption of important public policies on the issue of financial inclusion, financial education, risk management, natural disasters, promotion of SMEs, among others, but also the government has opened channels through APP for beneficiaries of social programs, generally from social levels 1 and 2, to have access to insurance. These programs are a source of learning and can provide a basis to further promote industry adaptation, higher levels of trust and knowledge. However, the dissemination and use of information are still insufficient.

On the demand side, there are also important weaknesses. Such is the case of (i) the lack of financial education of potential consumers of micro insurance products; (Ii) the confusion between private insurance and social security and the lack of distinction between insurance and micro insurance; (Iii) insurance are not part of the tools used by low-income population to manage unforeseen risks or unexpected expenses; (Iv) the mistrust towards the banking sector can infect the insurance sector; (V) the cost of insurance is perceived as too high for the target population; (Vi) lack of knowledge about obligatory insurance by those who are beneficiaries; (Vii) lack of information on insurance products; and (Viii) unattended concern on counting with consultants that clearly explain the condition of the products that are being offered and their benefits.

This whole process has been conducted without a regulatory framework that encourages or promotes access to insurance specifically. However, this does not mean that there are no obstacles or that further encouragement of participants in the value chain is not needed to catalyze the development of the micro insurance market responsible for part of the regulation. The regulatory framework for micro insurance in Colombia does not impose "unbeatable" barriers for the development of that market. However, in order for the responsible micro insurance market potentiate and continue developing in innovative ways, focused on the needs of the target population, aware of the particular characteristics and living conditions of the same, it is required to remove a number of barriers that have been overcome but by removing them, it would facilitate the development of the micro insurance market in Colombia. These barriers (i) are preventing adequate access to distribution channels to participate in the market; and (ii) they are delaying some processes applicable to the subscription and use of insurance products. Likewise, it was found that it is necessary to analyze in detail the adequacy of (i) the tools used so that social class 1, 2 and 3 can make informed decisions and use the products; (Ii) specific consumer protection mechanisms, such as identification of unfair terms, the SAC, the DFC, and other mechanisms for handling complaints and conflict resolution; (Iii) the fact that funeral companies can offer funeral services that have similar characteristics to insurance, even though they are not licensed entities, regulated and supervised; and (iv) the current situation in which funeral insurance work, which requires the consumer to pay for the funeral with their own money and then ask for reimbursement to the insurance company.

Given the above, Colombian micro insurance market could be classified as a growing hybrid market that is in the process of diversification. Colombia has failed on diversification in relation to appropriate products and designs for the consumer, but is in the process of advancing the use of innovative channels, and offering voluntary products.

Recommendations. With the purpose that the micro insurance market in Colombia will continue to develop responsibly it is important for all participants in the value chain to participate actively in the design of a roadmap. It is therefore essential to create a platform for discussion and analysis which involve all these entities, and not just the insurance industry, and where they analyze and implement the recommendations presented below. These recommendations were selected taking into account the current state of micro insurance market development, their needs, and also the assorted opportunities that are waiting to be explored (see Annex C). These recommendations are presented by axis of intervention and by identifying the types of intervention that are needed to implement them:

Axis of intervention	Recommendations	Applicable intervention
Facilitate micro insurance market efficiency and remove regulatory barriers	• Remove regulatory barriers to access to marketing channels for massive and micro insurance • Remove barriers that hinder the simplicity, clarity and quickness • Ensure collection of disaggregated data for micro insurance	Proportional regulation and proper supervision
Promote supply and distribution of products of value to the consumer and the insurer.	The industry should: • Improve their knowledge on the needs, characteristics, and hardships of the target population through market research • Design innovative micro insurance products that meet the needs for the target population of micro insurance in Colombia, and that are tangible • Leaning on the approach taken by the pilots of APP and in turn, the BDO and Bancóldex should promote the socialization of the same • Make continuous monitoring to ensure that the product has a real value to the consumer and is effectively profitable and sustainable financially • Increase the use of transactional platforms to increase access, transactionality and decrease costs.	Good practices by suppliers Autoregulation of the insurance industry.
Increasing demand and use of micro insurance products in the country.	The industry should: • Explore the use of channels with potential once regulatory barriers are removed • Explore the scope of internet sales and other technologies for micro insurance Government: • formally recognize the role of insurance in all its public policies and ensure coordination on the analysis of the issue of insurance in all these cases	Good practices by suppliers Adoption or bigger emphasis on public politics

	• Continue to open channels for the use of micro insurance • Encourage the local government to open channels for the use of micro insurance <u>Insurance industry, the government and the SFC:</u> • Advance the issue of improving financial literacy levels	
Promote the development of the technical capabilities of the SFC in the topic of micro insurance to ensure adequate regulation and supervision	<u>SFC:</u> • Continue training on how to implement proportionality in supervision and regulation to promote responsible micro insurance market development • Strengthen its capacity to assess and monitor micro insurance market performance using technical and social indicators as basis • Promote dialogue between supervisory authorities that may be indirectly involved	Proportional regulation and proper supervision
Effectively protect the Micro insurance consumer	<u>Industry should:</u> • Consider adopting a code of conduct for micro insurance <u>The SFC should:</u> • Analyze along with the SES alternatives so that funeral services organizations are required of providing certain technical principles of insurance. • Create and closely monitor micro insurance indicators and statistics of complaints. <u>Suppliers, consumers, and government should SFC:</u> • Promote the use of legal consultancy to provide assistance and advice to consumers of micro insurance. • Promote the role of consumer protection associations to consolidate a specific section on the lower social class of the population.	Autoregulation insurance industry proportional and appropriate supervision Good practices by consumers

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Finally, we thank each of the private and public entities and people described in Annex B who shared their views during the visit in the cities of Bogota and Medellin on October 2013, and those who participated in the workshop held in the city of Bogota on August 5, 2014.

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List of Abbreviations

A2ii	Access to Insurance Initiative
ADB	Asian Development Bank
IDB	Inter-American Development Bank
BANCOLDEX	Bank of Foreign Trade
BDO	Bank of Opportunities
BMZ	German Ministry for Economic Cooperation and Development
CB	Banking correspondents
CBJ	Basic Legal Notice
CENFRI	Centre for Financial Regulation and Inclusion
ECLAC	United Nations Economic Commission for Latin America and the Caribbean
CGAP	Consulting Group to Assist the Poor
CNC	National Consulting Center
DANE	National Administrative Department of Statistics
DPS	Department for Social Prosperity
ELCA	Longitudinal Survey of Colombia
ENIF	National Strategy for Financial Inclusion
EOSF	Organic Statute of the Financial System
FARC	Revolutionary Armed Forces of Colombia
FASECOLDA	Colombian Insurers Federation
FASP	Financial System Assessment Program
FIAT	Financial Inclusion Assessment Tool
MIF	Multilateral Investment Fund
GC	Government of Colombia
GFs	Focus groups
GIZ	German Agency for International Cooperation
IAIS	International Association of Insurance Supervisors
MFIs	Microfinance institutions
IPM	Multidimensional Poverty Index
MIN	Micro insurance Network
MinHacienda	Ministry of Finance and Public Credit
BAPT	Transversal table of Poverty and Inequality
MSME	Micro, small and medium enterprises.
ILO	International Labor Organization
PAD	specialized entities on Payments, Savings and Deposits
PCF	Financial Consumer Protection
PPP	Public-Private Partnerships
SMEs	Small and medium businesses
RIF	Financial Inclusion Report
RUS	Unique Registry of Insurance
SARLAFT	Management system of risk asset laundering and terrorism financing
SIGN	National Learning Service
SES	Superintendence of Solidary Economy
SFC	Colombia Financial Superintendence

SGSSS	General System of Social Security in Health
SISBEN	System Identification of Potential Beneficiaries of Social Programs
SMMLV	Minimum Monthly Legal Wage
SOAT	Mandatory insurance for Traffic Accident

Dollar value X COP

1 USD dollar = 2.032.52 COP (05/06/2014)

SMMLV

1SMLMV = 589500 COP in 2013 = 290 USD

1 Introduction

1.1 The Access to Insurance Initiative (A2ii)

The Access to Insurance Initiative (Access to Insurance Initiative - A2ii or Initiative-) is a global alliance made up of different international agencies and organizations for development[1]. Its aim is to facilitate access to insurance products to the population that currently has no access to the A2ii, it works with different local actors from both the public sector (mainly insurance supervisors) and private (mostly insurance companies). In this context, the A2ii acts as "implementer arm" of the International Association of Insurance Supervisors (IAIS). This relationship with the IAIS ensures that the A2ii has a high degree of technical knowledge and "know-how" in insurance, in addition to close contact with supervisory and regulatory authorities and the insurance industry in each country.

1.2 The A2ii program for Latin America and the Caribbean

The A2ii, together with the Inter-American Development Bank (IDB) and the Multilateral Investment Fund (MIF), is developing in Colombia, Peru and Jamaica the project "Implementation of standards of regulation and supervision for micro insurance markets in Latin America ". The overall objective of the project is to increase the availability and sustainability of insurance products whose design and final characteristics (in terms of cost, coverage offered, insured risks, etc.) meet the needs of population groups with lower incomes. To achieve this goal, the project aims to support regulatory and supervisory authorities in the three countries to facilitate the generation and adoption of regulatory interventions that promote access to insurance. Interventions in each of the three selected countries are conducted through three stages: (Step 1) make a diagnosis-country, based on dialogue and public-private consensus; (Stage 2) development and implementation of regulatory route sheets; (Stage 3) stage of learning and knowledge-sharing. The project in Colombia is in the first stage and its objectives are: (i) identify the situation of the micro insurance sector in the country and its main characteristics; (Ii) the factors that can contribute to promote it; (Iii) as well as the opportunities and barriers to the development of micro insurance market. The activities to be developed in stages 1 to 3 vary, and will depend on the identified needs of each country through diagnosis and public-private dialogue.

[1]Among the institutions that form the A2ii, include the Federal German Ministry for Economic Cooperation and Development (BMZ), the Consultive Group to Assist the Poor (CGAP), the International Labour Office (ILO), FinMark Trust and United Nations Capital Development Fund (UNCDF). The A2ii is supported by various partners in their projects at local and regional level such as the Asian Development Bank, the FIRST Initiative, GIZ / Making Finance Work for Africa, the Inter-American Development Bank (IDB) or the Ministry of Foreign Affairs Kingdom of the Netherlands. The Secretariat of the A2ii is in charge of the German Agency for International Development (GIZ) on behalf of BMZ. A2ii activities fall into two pillars: the first seeks to generate information and knowledge that national supervisors may need to develop their work. The second aims to promote the effective use of this information, through support to capacity building supervisors and dissemination of knowledge generated.

1.3 Diagnosis-country in Colombia

1.3.1 Objectives and Reach

This diagnosis has as an objective: (i) to present the situation of the micro insurance sector in Colombia taking into account the findings obtained by the consultant team; (Ii) identifying existing and potential barriers that may hinder the development of micro insurance; (Iii) identify factors and opportunities that can help develop the micro insurance sector in Colombia and (iv) make recommendations to achieve that objective.

To make the diagnosis-country in Colombia, the consultant team has been supported by the SFC and the BDO. The SFC is the official partner of the project, as well as the main recipient of the products developed during the project. The consulting team is made up of Andrea Camargo, Clémence Tatin- Jaleran and Leticia Furst. In the initial stage of this diagnosis, Mateo Cabello was part of the consultant team, like Felipe Carrizosa, local consultant. The consultant team participated in a mission in Bogota and Medellin on October 2013. During the mission meetings with different public actors (regulators, supervisors, policy implementers, and public insurance companies mainly) involved in the sector were carried out, but representatives of insurance companies, distribution channels, reinsurers and insurance brokers, microfinance institutions (MFIs), among others participated as well. Focus groups and a visit to the Paloquemao market were also carried out in order to get a better view of the aspects that affect the demand for micro insurance by lower income segments of the Colombian population. The diagnosis took into account information available on August 1, 2014. The diagnosis-country used the methodology developed by the A2ii for conducting such studies and has already been implemented in more than 20 countries. This methodology is built on four pillars: (i) country context; (Ii) demand; (Iii) supply and (iv) the public policy framework, supervision and regulation. Following the methodology developed by A2ii, in Chapter 2 of this diagnosis a vision of the applicable context to micro insurance in Colombia is presented. In Chapter 3, the supply of insurance and micro insurance in the country is discussed, Chapter 4 explores the real and potential demand of insurance and micro insurance. Chapter 5 summarizes the main aspects of public policy, regulation and supervision that impact positively or negatively on the sector. Chapter 6 presents a summary of the main findings, and Chapter 7 serves to suggest a number of recommendations to expand access to insurance to the target population.

1.3.2 Conceptual framework

1.3.2.1 What is micro insurance?

The IAIS does define micro insurance as:

> *"(...) A safe access to the low-income population, provided by a variety of different entities, but that is handled by insurance practices generally accepted (which should include the Insurance Core Principles). This means that the risk insured under a micro insurance policy is managed based on insurance principles and funded by premiums. Therefore, the micro insurance activity itself falls within the reach of the regulator / supervisor of relevant domestic insurance or any other competent body under national law of any jurisdiction.*"(IAIS - CGAP 2007)

In the specific case of Colombia, it is noteworthy that one of the peculiarities of micro insurance market is that it has developed in recent years without having mediated a specific regulation on the subject. So Colombia does not have a regulatory definition of "micro insurance". However, FASECOLDA has adopted a definition of micro insurance as part of its strategy to promote access to insurance by the entire Colombian population.

The definition of FASECOLDA has served as a parameter for the insurance industry in Colombia, not only to gather information about products that could be described as micro insurance, but also to promote the development of technical skills regarding micro insurance. Currently, according to the definition of FASECOLDA, micro insurance are the ones considered to offer protection to low-income population and their assets against specific threats and are known for meeting the following requirements simultaneously:

1) They are designed, in their conditions and procedures, considering the target population.
2) They are marketed through appropriate channels for low-income population.
3) Having a bi-monthly premium equal to or less than one-twelfth of 1 Legal Monthly Minimum Wage (MMLW): ie a monthly premium of about COP 24,600 per month in 2013 - approx. USD 12 monthly.
4) Have an insured value equal to or less than 135 SMMLV: about COP 79.6 billion in 2013 - approx. USD 39.160.

According to this definition of FASECOLDA, micro insurance should be aimed at the low-income population, but they must meet certain quantitative elements (the amount of the premium and the insured value) and qualitative (conditions and procedures in the population having in mind the target population and the channel through which it will be marketed) so that said product can be classified as such by the insurer. Having analyzed the definitions of micro insurance in other countries, the definition of FASECOLDA, and the criteria established by the A2ii to define micro insurance (IAIS 2014), we have decided to adopt the definition of the IAIS, which is focused on "low-income population". Although we believe that the definition of FASECOLDA is interesting, in this diagnosis, a micro insurance product of a conventional insurance is not distinguished by means of purely quantitative elements, such as the amount of the premium and the insured value, but for the target population which makes insurance a micro insurance. This definition assumes that micro insurance products are characterized by being designed to meet the needs of the target population, and are adapted to the conditions and hardships of said population

1.3.2.2 Who is the target population for micro insurance in Colombia?

Defining micro insurance as insurance to low-income population, refers us to imperatively delimit the "low-income population" in Colombia in order to quantify the target population of micro insurance in the country [2]. It is noteworthy that poverty and lack of access to insurance are not determined only by low incomes, but other dimensions of poverty that are equally important

[2] Quantification of the population of micro is made in this diagnosis to show that the captive market demand for micro insurance is predominant. However, providers, regulator, supervisor or the government may use other mechanisms demarcation and therefore differently quantify the target population in Colombia.

for determining the target population. Thus, the target population of micro insurance may be considered to be segments of the population that are not necessarily below the national poverty line.

From this perspective, this diagnosis takes as a benchmark the recent class distinction made by the World Bank in the study "Economic Mobility and the Rise of the Latin American Middle Class" (FH Ferreira, et al. 2013). In this World Bank study four social classes in Latin America were identified: high, medium, vulnerable and poor classes. The tool of distinction between classes was the concept of "economic security", understood as the low probability of falling below the poverty line. According to the study it was established that the highest level of economic insecurity (the probability of falling below the poverty line) over a period of 5 years for a home considered middle class should be 10%. In order to demarcate such a possibility based on daily income by household, it was identified that households with daily income between $ 10 - $ 50 are generally associated with that level of economic insecurity (10%). However, not all segments of the population earning less than USD 10 can be classified as poor, and it is in this context that a class, the "vulnerable class," which is at a greater risk of 10% fall under the poverty line, but not considered as poor, as their incomes are higher than USD 4. Given the above, the World Bank study concludes that in Latin America 37.5% of the population is considered vulnerable 30% as middle class, 30.5% as poor class and only 2% as upper class. It was identified that households with daily income between $ 10 - $ 50 are generally associated with that level of economic insecurity (10%). However, not all segments of the population earning less than USD 10 can be classified as poor, and it is in this context that a class emerges, the "vulnerable class," which is at a risk of more than 10% fall under the poverty line, but is not considered as poor, as their incomes are higher than USD 4. Given the above, the World Bank study concludes that in Latin America 37.5% of the population is considered vulnerable 30% as middle class, 30.5% as poor class and only 2% as upper class.

Using such mechanism of regional demarcation, one might conclude that the target population of micro insurance is the population usually belonging to the vulnerable and poor classes.

The difficulty or ease to quantify this target population in each country depends on it having criteria for identifying vulnerable and poor classes. In some countries, there are only criteria to define the poor, and in others it has additional tools that can be used to identify the vulnerable class. In the present case, Colombia has different tools that can be useful to mark not only the poor but also the vulnerable population, including: the determination of the population in state of poverty; social class; and the SISBEN index.

- *The segmentation of the target population based on the concept of national poverty.* According to statistics from the 2013 Monetary Poverty report, between July 2012 and June 2013, about 32% of the Colombian population lives below the poverty line. Now this segmentation tool does not account for people who may not be below the national poverty line, but in any case, can be considered as vulnerable.

- *Social class.* The distribution by socioeconomic social class of Colombian society is carried out in accordance with the classification of residential property in which the different population groups live. This mechanism of targeting social spending by class is commonly accepted by different actors interviewed during the field visit in Colombia. These are: social class 1 (low-low, which comprises 22.3% total population); Social class 2 (Low, 41.2%); Social class 3 (Middle- low, 27.1%); Social class 4 (Medium, 6.4%); Social class 5 (Medium-high, 1.9%) and Social class 6 (High, 1.2%). Belonging to one or another social class determines the level of subsidy that each group will receive for the provision of public services. Thus, social class 1 and 2 are beneficiaries of subsidies, while the social class 5 and 6 correspond to users with greater financial resources, which must pay contribution (overruns) on the value of their public services. The Social level 3, although classified as medium (medium low), receives a small percentage of subsidy, while social level 4 is not beneficiary of subsidies, nor should pay cost overruns (CONPES 2005).

- *The segmentation of the population based on the SISBEN index*. The SISBEN is an information system designed by the Government to identify potential families that are beneficiaries of social programs and serves as an index (SISBEN III), which allows the evaluation of the living conditions of the beneficiaries.

For the purpose of this study the criterion of social class will be adopted to determine the target population for micro insurance in Colombia because it has more quantitative and qualitative information on such social class in the country. From this perspective, in Colombia, it is understood that the target population of micro insurance is one that belongs to the social class 1, 2 and 3, also including micro and small entrepreneurs, small and medium farmers, workers in the formal and informal economy, among others. However, it is noteworthy that in Colombia the Small and Micro Enterprise (SME) shows a clear exclusion to appropriate financial services, including risk management for their operations, assets and employees, which in most cases belong to social class 1, 2 and 3. Having the above in mind, we consider that the SMEs are also part of the target population for micro insurance [3]

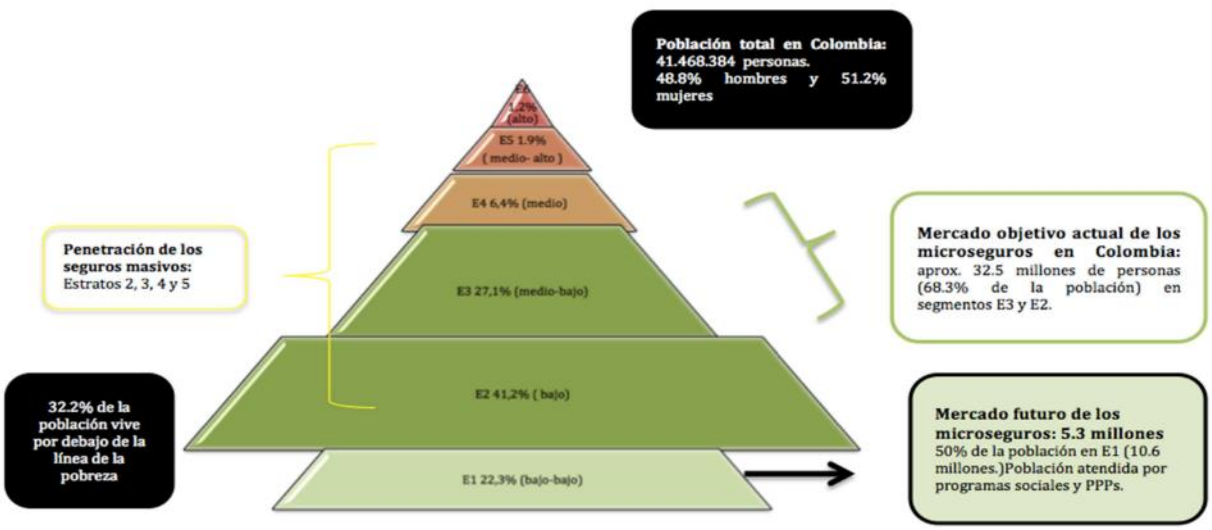
However, populations in social class 1 are generally too poor to buy an insurance policy under normal market conditions. Their access to micro insurance products however may occur through subsidies or subsidized government programs, such as those which are encompassed within Public-Private Partnerships (PPP). From this perspective, social class 1 is considered a "future target population" for the micro insurance market in Colombia, which will require additional mechanisms to "graduate" to access these products. However, today the population in social class 1 may be having access to micro insurance products thanks to government support through social programs. Similarly, given the amazing advances of class mobility in the region, it is even more important to consider social class 1 as a future micro insurance market (F. H. Ferreira, et al. 2013), while the target population would be made up of social class 2 and 3.

In order to quantify the target population of micro insurance, we will consider the household survey conducted by DANE that determined the percentage of the population by social class. According to DANE, 1.2% of the Colombian population (rural and urban) belongs to the social class 6, 1.9% to social class 5, 6.4% to Social class 4, 27.1% belong to social class 3, and 41.2% and 22.3% to social class 2 and 1 respectively. Given that the Colombian population is currently composed of 41,468,384 people, it can be concluded that the current potential micro insurance market in Colombia is composed of 32.5 million people, representing 68.3% of the national population, which is part of social levels 2 and 3.
On the other hand, the future target market for micro insurance, we estimate that it would consist of 5.3 million people. This is explained because although 10.6 million people in Colombia belong to social class 1 (22.3% of the total population), we understand that there will always be a percentage of that population not

[3] In order to avoid the mention of all these segments throughout the document whenever reference to the target population is, it will refer either to layers 1, 2 and 3, or target population, but it should be understood that all these segments are included.

able to purchase a policy. So, we consider only the 50% of social class 1 as a future target market for micro insurance in Colombia. It is concluded that about 37.8 million people constitute the target population for micro insurance in Colombia (current and future) (See Figure 1).

Figure 1 The target market for micro insurance in Colombia
Source: Prepared based on the Household Survey, DANE 2013



1.3.2.3 "Responsible" micro insurance

To make a diagnosis of Colombian micro insurance market and provide recommendations for it to develop properly, it is necessary to adopt an evaluation criterion. For the present case, this criterion is the concept of "responsible Micro insurance".

They are understood as those responsible micro insurance products that are not only accessible -generally, by using a massive channel - and affordable - since the premium is low-cost-, but also are actually used by those who acquire it or those who it is offered to[4].

From this perspective, the use of insurance product is essential to evaluate the market for micro insurance in Colombia and provide recommendations for it to develop in a responsible manner. The use of micro insurance products implies that products have real value for the consumer, may be used effectively as the processes are known, accessible and affordable and therefore that consumers are sufficiently empowered[5] to obtain the expected benefits of such products (See Figure 2).

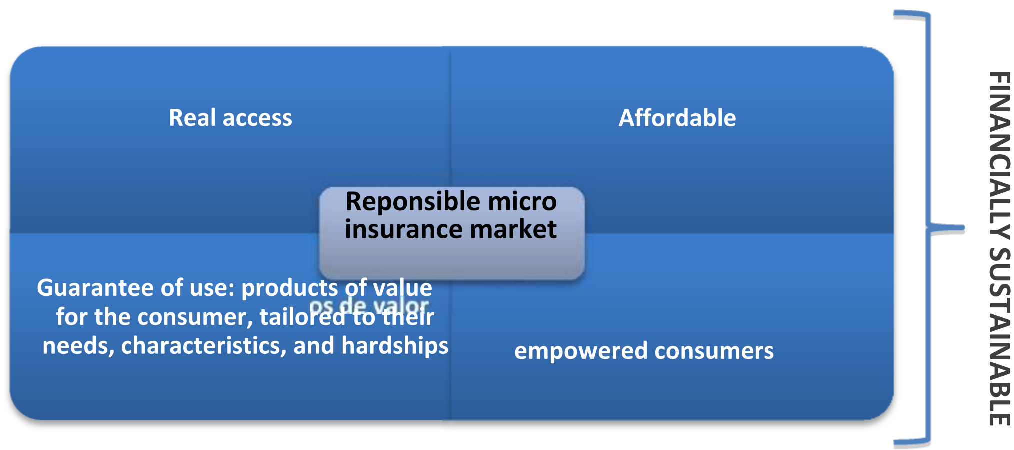
[4] As will be seen in the context section, is approach that distinguishes access use is also adopted by the SFC and BDO in its recent Financial Inclusion Report 2013 (SFC and BDO 2014).

[5] Empowerment is defined by the Dictionary of Humanitarian Action and Development Cooperation as "the process by which people *strengthen their capabilities, confidence, vision and leadership as a social group to promote positive changes in living situations*".

Thus, micro insurance products (i) must respond to the risk profile and protection needs of the target population; (Ii) conditions should be written in simple language; (Iii) no conditions affecting its simplicity, clarity and ease of hiring are allowed; and (iv) must have minimal and consistent exclusions with the insurance coverage.

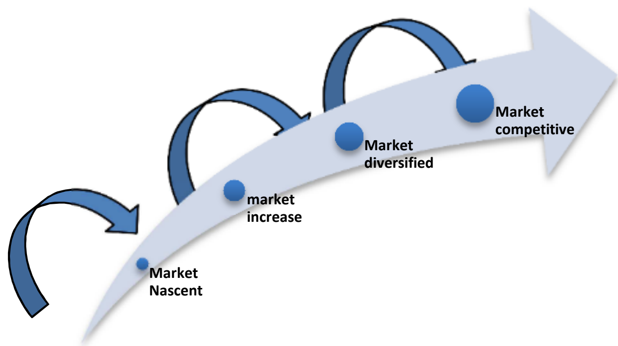
Only when the products meet such characteristics, it is feasible: (i) provide an efficient risk management strategy for low-income population that when properly used can help break the vicious circle between poverty and vulnerability; (Ii) ensure financial sustainability as trust and positive perception of the insurance leads to a larger acquisition of products; (Iii) promote access to insurance as an essential component of financial inclusion.

Figure 2 Responsible micro insurance market
Source: Made by myself



The importance of using responsible micro insurance as a criterion of evaluation and support of recommendations is consistent with one of the objectives of this diagnosis, which is precisely to make recommendations to promote the development of micro insurance in Colombia. Four stages of market development of micro insurance have generally been identified, (i) rising market; (Ii) growing; (Iii) diversified and (iv) competitive. From this perspective, this diagnosis will identify at what stage Colombia is, which are the existing obstacles to market development, and what is recommended to promote responsible transition to the next stages (Figure 3).

Figure 3 The evolution of responsible micro insurance market
Source: Made by myself



2 Context

2.1 Geographical, environmental and economic context

Colombia is highly vulnerable to natural disasters, a phenomenon accentuated by climate change. Colombia ranks 10th among the 33 countries with high economic risk because of their exposure to various natural disasters, including earthquakes, volcanic eruptions, hurricanes, floods, and landslides (GFDRR 2010). Colombia's vulnerability to climate change, were made manifest to floods and landslides caused by the phenomenon of "La Niña" (the winter season of 2010-2011). During this winter season, about three million people were damaged according to the National Register of Victims (RUD) (approximately 7% of the population)[6] and the damage amounted to 2% of gross domestic product (GDP), circumstances which reduced the country's ability to grow in subsequent years (ECLAC / IDB, 2012). Of all the losses caused by the La Niña phenomenon, only 7% were insured.

> Colombia is especially vulnerable to climate change because of the location of its population in coastal flood zones and unstable soils of the upper parts of the mountains, and for presenting a high recurrence and magnitude of disasters associated with climate. (UNDP, 2010)

Most of the population is concentrated in urban areas. Of the 47.7 million people, 76% live in urban areas (World Bank 2014). This situation is mainly explained by the movement of people from rural areas to urban areas due to violence and limited economic opportunities in some rural areas of the country. It is estimated that this concentration will persist in the future: "2050 Colombia's urban population will exceed 54 million, more than six times the rural population (8,800,000) (Parra-Peña, Ordonez and Acosta 2013).

[6] According to the World Bank at the end of 2012 it had 47.7 million people (World Bank 2014).

Colombia's economy has experienced significant growth over the past decade. Colombia is currently the third largest economy in Latin America, after Brazil and Mexico. In the international arena, Colombia is among the 30 largest economies in the world. This level of growth has been accelerated in the last decade (2001-2012), period in which Colombia grew at a rate of 4.2% annually, exceeding the average of the nineties decade (2.7%) and the eighties decade (3.6%). By 2013, and in the absence of confirming economic data in the last quarter, an estimate of growth of 4.5% [7] is maintained. This growth rate is the highest among the members of the Pacific Alliance, which also includes Peru, Mexico and Chile. During the period between July 2012 and June 2013, per capita income showed an increase of 3.8% in the national total. (DANE 2013). Inflation rate, with an estimated growth of 3.3% by 2013 is on its lowest level in decades.

The sectors of construction, agriculture, mining and finance are the engines of the economy. By sectors, the engine of the economy in recent years has been the construction. The second most important sector is agriculture. Agricultural activities accounted for 6.5% of GDP and generate about 18.3% of jobs nationwide. Other elements that have contributed to relaunch the Colombian economy in recent years include investment.[8] rate which at the end of 2012 reached 28.4%, the highest in the history of country[9].

2.2 Political context

The armed conflict in Colombia has decreased in intensity in recent years. Since the sixties, the country has suffered the consequences of armed conflict. Although in recent years the intensity of violence has decreased considerably, its effects are still marked. One is the existence of a large number of internally displaced persons (between 4.9 and 5.5 million by the end of 2012), which makes Colombia the country with the largest number of displaced people in the world (UNHCR 2014). In 2011 the law of victims which aims to recognize the damage caused by the Colombian internal armed conflict, particularly through reparation and land restitution, was issued. Currently the government and the Revolutionary Armed Forces of Colombia (FARC), are in a process of dialogue for peace.

2.3 Social context

Colombia evidences significant progress in reducing poverty and inequality. According to the data of the Transversal Bureau of Poverty and Inequality (MTPD)[10] and the DANE, the percentage of population in Colombia living below the poverty line for the period between July 2012 and June 2013 was 32.2%[11] (DANE 2013) and by 2010, 15.8% of the population lived on $ 2 per day (World Bank 2014). The percentage of Colombians living below the poverty line decreased

[7] According to the data provided by FASECOLDA, the insurance industry grew by 8% during the same period. That is, almost double the overall economy. For more information, see Section 4 of this document.
[8] Calculated as the percentage of GDP that the country reinvests.
[9] JP Morgan, in their assessment of debt "Emerging Markets Bond Index (EMBI)" publication, ranked Colombia as the second country in terms of risk investment in South America after Peru. Investing in Colombia is now safer than in Mexico, Brazil and Chile, La República, October 4 2012.Colombia is ranked 41 of 185 countries with regard to political, economic and structural risk by Euromoney Country Risk 2012 (Euromoney 2012).
[10] The MTPD is a government initiative whose overall objective is to provide a forum for dialogue (cross), monitoring and decision regarding national government actions aimed at reducing poverty and inequality in Colombia.
[eleven] This means that about 16 million people have incomes less than USD 4.42 per day. (MESEP 2012)

from 40.3% to the previously mentioned 32.2% in the same period. These positive data are confirmed by ECLAC to note that the level of inequality in Colombia has declined since the Gini coefficient has been reduced by 2.1 points for the same period.[12] These results have led for Colombia to go from being the third most unequal country in Latin America in 2010 to currently occupy the seventh place, which makes Colombia comparable on equal terms to countries like Haiti and Angola (Moller 2012). Reducing inequality in Colombia is explained among other reasons because the income of poor households grew more than those of the rich as is shown in Table 1. It is noteworthy that in 2014, among 132 economies, Colombia ranked No. 52 in the Progress Indicator Social[13] (SFC and BDO 2014).

Table 1 Declining unemployment rates and formalization of employment by quintiles

Source: (DANE 2013)

quintil[14]	Increase in income between 2010 and 2012	% Decrease in unemployment	Formalization of employment (% growth in salaried employment)
Quintile 1 (Q1) (20% of the poorest)	13.2%	15,1%	9.9%
Q5 (20% of the richest population)	2.3%	N / D	3.2%

The IPM can conclude that there is still a long way to go to improve living conditions. The IPM measures poverty through five dimensions (educational, children and youth, work, health, housing and utilities) involving fifteen indicators (eg. Informal employment, illiteracy, no health insurance, etc.). For the period between July 2012 and June 2013, according to the IPM, 27.0% of the population in Colombia was poor.

The country's unemployment rate continues to decline, however informal employment is persistent. The unemployment rate has been reduced it in recent years, according to DANE, it stood at 8.5% in November 2013. Analyzed by quintiles, shown in Table 1, the reduction of unemployment mainly benefited the population with less income. However, it is noteworthy that even a large percentage of the "employed" population in Colombia has an informal employment. According to DANE during the quarter from October to December 2013, from the total of employees, 49% had an informal job. On the other hand, 10.2% of all formal occupied reported being "underemployed objective"[15]. The high degree of informality in employment leads to a huge irregularity in their income level. The fact that these levels of income can fluctuate so importantly translates into an important level of scarcity, which ends up increasing vulnerability for these groups.

The highest poverty rates are reported in rural areas, and in certain population groups, such as displaced, indigenous and Afro-descendants. Poverty of Colombian households reflects high disparities between urban and rural areas, according to various measures of wealth. Thus, 59.3% of urban households have incomes below the poverty line, compared with 82.9% for households in rural zones.

[12] According to the ECLAC report, the change in the Gini coefficient (used to measure income inequality), which has seen Colombia between 2009 and 2012 is similar to that of countries such as Argentina, Brazil, Ecuador and Uruguay. The countries of Latin America where more Gini coefficient recorded the most significant declines were Bolivia, Nicaragua and Venezuela (CEPAL 2013).

[13] This indicator measures "the ability of a society to meet the basic needs of people and communities to improve and *maintain their quality of life and create the conditions for all individuals to achieve their potential*".

[14] Q2 grew 12.6%, Q3 and Q4 12.2% 10.1% for the same period.

[fifteen] The goal is underemployed who has desire and has taken steps to realize their aspiration to improve their incomes and working conditions.

In other words, urban and rural poverty are structurally different. For example, in urban areas there is a higher proportion of households with better socioeconomic conditions than in rural areas, especially in areas such as garbage collection, sewerage and access to electricity or gas, services that reach more than 90 % of the population. In rural areas, however, with the exception of electricity that covers 93% of rural households, the remaining services do not exceed 20% coverage (Universidad de los Andes 2011). On the other hand, certain population groups have the highest poverty rates in the country, these being displaced, Afro-Colombian and indigenous population.

The Government of Colombia (GC) is committed to reducing poverty and vulnerability of the country through its social programs. The GC has a number of policies and programs to eradicate poverty and extreme poverty, channeled through the Administrative Department for Social Prosperity (DPS), the GC's entity that leads the reconciliation[16] and social inclusion sector. The DPS has several social programs focused on three categories: (i) social income, where the program Families in Action and Income for Social Prosperity is; (Ii) special programs focused on promoting peace and restitution of land among other objectives; and (iii) productive inclusion programs and sustainability, among which are the program "Income Generation and Employability". As will be seen later the DPS has sought to expand access to insurance to beneficiaries of some of these programs. Another strategy of interest is the Red States, which is led by the National Agency for Overcoming Extreme Poverty (ANSPE). The ANSPE implements the national strategy of intervention and coordinated aimed at improving the living conditions of families which are object for intervention (families in extreme poverty and displaced persons). Currently about 1.5 million families are linked to the Red States.

Colombia offers universal access to health services. During 2010 and 2012 an increase of 3.1 points in the coverage of the General System of Social Security in Health (SGSSS) was presented. Thus, 2.3 million people joined the system, of which 1.5 million did through the subsidized regime. The total number of people covered by the SGSSS escalates, at the end of December 2013, 43.2 million people; ie 91.7% of the total population. However, the questions about quality, real access, and access times to the services offered persist.

The problems of education and illiteracy persist in the country, particularly in rural areas. 8.9% of the population over 15 years in Colombia is illiterate, the illiteracy rate is much more prevalent in rural areas than in urban areas[17]. On the other hand, 37.2% of the adult population has completed basic primary education, while 31.8% has completed secondary education, and only 11.9% of the Colombian population has university or postgraduate studies.

In 29.9% of Colombian households, women are the head of household, but violence against women is persistent. 29.9% of all household heads are women, of which 10.6% have no education. This percentage shoots up to 26.1% in rural areas, placing these households among the most vulnerable of the whole country[18]. This contrasts with the results of the AMIS Mujer report,

[16] They are attached to the DPS: the (i) National Agency for Overcoming Extreme-ANSPE Poverty, (ii) Unit of Attention and Reparation for Victims, the (iii) Special Administrative Unit for Territorial Consolidation, the (iv) Colombian Institute of Family Welfare ICBF, and
(V) Center of Historical Memory.

[17] The percentage of adult population is literate reaches 94.5% in the municipalities while this figure drops to 81.5% in the rest of the municipalities.

[18] The average number of persons per household in Colombia is 3.9, with 66.7% of all households with 4 or fewer people.

published on July 17, 2014, supported by figures from the National Institute of Legal Medicine and Forensic Sciences. According to this study there is a worrying trend towards increased feminicide. By 2013 an increase of 40% of murders of women in circumstances associated with domestic violence and sexual crime associated circumstances with respect to 2011 (Sisma Mujer 2014) was evident.

The cooperative sector is of great importance in Colombia. Membership figures to cooperatives in Colombia are among the highest in Latin America, at least 11.7% of the total Colombian population is affiliated to some kind of cooperative. The number of members of cooperatives amounts to 5 million. Although there is no disaggregated qualitative information, Confecoop, the union of cooperatives in Colombia, estimates that most of its members belong to social class 3 in urban areas and between 2 and 3 for rural areas and the number of membership grows 8 -9% per year. The cooperative sector has a network of over 900 offices throughout the country which makes these cooperatives into a channel with potential of reaching low-income clients.

2.4 Financial sector and financial inclusion

2.4.1 Financial system

The Colombian financial system is solid and is positioning itself as one of the most important in Latin America. The financial system is composed of establishments of credit[19], financial services companies[20] and other financial institutions, including the insurers[21]. In 2011, the assets of the supervised financial system reached a value equivalent to 90% of GDP. A reflection of the growth of the Colombian economy in the last decade is that those same assets, in 2001 only accounted for 60% of GDP. After the financial crisis of the late nineties, this sector has been strengthened through, among other things, the regulation of the national government and the SFC, which is reflected in good indicators of profitability, risk and solvency. Colombia has been consolidating in recent years as an exporter of financial services in the region. According to the latest Assessment Program Financial System (FSAP, 2012) of the International Monetary Fund (IMF), the financial situation of the institutions of Colombian credit is solid. According to the same report, financial institutions (bank and nonbank) are effectively supervised by the SFC.

The Colombian financial sector is dominated by complex financial conglomerates and a wide variety of intermediaries. There is a significant concentration of assets since the ten largest financial conglomerates accumulate 80% of total financial sector assets.

[19] Including: banks, financial corporations, traditional financing companies, finance companies specializing in leasing and financial cooperatives.

[20] These include: fund management companies pension and severance pay, trust companies, general warehouses, investment management companies and exchange brokerage companies and special financial services.

[21] In addition capitalization companies and special official institutions.

2.4.2 Access to financial services for low-income population

Colombia has significantly moved the agenda of financial inclusion forward, promoting access to transactional platforms, to credit, savings and insurance. Both government and industry have taken clear measures to promote financial inclusion in Colombia, as in the case of the National Strategy for Financial Inclusion (ENIF) and the creation of BdO[22], however financial inclusion still has a large number of challenges (see Box 1) [23]. In the case of the government, most efforts have been directed to ensure access to transactional platforms and access and use of credit and savings. Regarding insurance, the industry has mainly been who has promoted it, however recently the GC has also committed to this task as is clear in the 2012-2014 National Development Plan (NDP 2010-2014) [24]. There are now initiatives to promote savings (micro-savings).

On the other hand, Colombia was ranked 7th out of 55 countries where the regulatory environment, institutional and stability of the country are conducive for microfinance business (Economist Intelligence Unit 2013). These advances were corroborated in 2012 by the World Bank, during the evaluation of the Colombian financial system (Financial Sector Assessment Program, or FSAP), where the positive impact obtained by the CB highlighted, developments channels such as mobile telephony and the internet, advances in the specific regulation on microcredit and linking new customers to the financial system for the payment of subsidies of Families in Action through electronic savings accounts.

Box 1 Challenges for Financial Inclusion in Colombia

Source: (SFC and BDO 2014)

Challenges for Financial Inclusion in Colombia in accordance with the Financial Superintendent of Colombia

- Ensuring that economic growth translates into social welfare for the entire population.
- Generate a balance between innovation and offer financial products and services in the market, which do not lead to risk-taking that could destabilize the financial system and at the same time meet the interests and needs of consumers.
- Understanding the real needs of the population through the "Demand Survey" that we are implementing in conjunction with the Bank of Opportunities.
- Accompany innovation by addressing market failures that can generate new financial products. From the offer: i) issue regulations that will lead to the implementation of new technologies and promote competition in the market and ii) ensure that there is more and better information about them on the market. From demand: i) protect financial consumers when resolving disputes, ii) empower (including the unbanked) with sufficient knowledge to make decisions as they relate or get included in the system.
- Maintaining consumer trust in the financial system through effective protection mechanisms.
- Promote joint that facilitates that all stakeholders, participate in coordination in the design and implementation of integral financial inclusion policy defined by the State.
- Promote sustainable inclusion through insurance (Micro insurance) which is being worked on with the Inter-American Development Bank, the Access Initiative Insurance (A2ii) and Bank of Opportunities for identifying regulatory needs and supervision.

The importance of access to insurance increases as part of promoting financial inclusion. While this point will be discussed in more detail in Section 5 of this document, it should be noted that insurance

[22] The BDO is a public policy of financial inclusion, promoted by the national government, which runs development projects related to promoting access and use of quality financial services to generate positive impacts on household welfare programs and the business environment. BDO Network the form banks, finance companies and financial cooperatives and credit unions and microcredit NGOs, who are responsible for extending coverage and bringing financial services to the underserved population.

[23] For more detail on public policies to promote financial inclusion see Section 5.

[24] For more detail see Section 5.

enjoy special recognition in the National Development Plan 2010-2014 and in the Reports of Financial Inclusion (RFI) for the years 2012 and 2013 (SFC 2012) (SFC and BDO 2014) [25]. Thus, the RFI 2012 indicated that:

> "There is a great potential for financial inclusion through the insurance industry, for which it is necessary to promote the culture of insurance in the Colombian population, so that this type of product is not understood solely as a sumptuous product (...) the insurance provide added value to consumers, since they constitute a tool for risk coverage, which helps to mitigate the adverse effects of economic shocks and improving the quality of life, based on trust payment upon the occurrence of a claim. Coverage, access, loyalty and tranquility of the insured, are the basis of this
> *tool to promote financial inclusion*".[26] (SFC 2012, 147)

The institutions offering credit and savings services to low-income population are mainly: commercial banks, financial cooperatives, credit unions and MFIs. Not all of these participants are supervised by the SFC or by the Superintendence of Solidary Economy (SES) [27], as in the case of some MFIs and NGOs.

The main entities that provide financial services to the target population of micro insurance in Colombia are:

1. MFIs are defined as those institutions that are not supervised by the SFC, or SES but nevertheless provide microcredits. Generally, they are constituted as foundations or non-governmental organizations (NGOs) and only grant loans but do not mobilize savings. Among the leading MFIs are Actuares, Crezcamos, or Contact, and provide credit services to around one million customers.
2. Credit institutions:
    a. Banks: There are some commercial products, such as ProCredit banks, Bancamía, Banco de Bogota and Bancolombia, providing microloans to the middle class and lower middle-class (mainly social class 3 and 4 and microentrepreneurs). It is interesting to note that in recent years some of the IMF affiliated to the Women's World Banking have completed the transformation process to credit institution (Bank WWB) and are also currently under the supervision of the SFC.
    b. Banco Agrario: Since 1999, the Banco Agrario de Colombia SA, a joint entity, provides microcredit, among other financial services to the rural sector, with financing agriculture, fishing and forestry. This is carried out through its 738 branches, representing the country's largest network of bank branches.
    c. Finance companies: Unlike other banks, these are not authorized to offer checking accounts[28], among them there are: Finamérica, MiPlata, Banco Falabella and Tuya.

[25] Financial Superintendence of Colombia, Financial Inclusion Report, 2012.
[26] RIF 2012, pg. 147
[27] The credit union are supervised by the Superintendency of Solidarity Economy.
[28] Finance companies are financial institutions supervised by the SFC, whose deposits are covered by the Guarantee Fund of Financial Institutions (FOGAFIN) through deposit insurance. Legally they are financial institutions that capture resources
by term deposits in order to make credit operations to facilitate the marketing of consumer durables and services for homes and conducting operations financial leasing.

3. Cooperatives: they operate in different economic and service sectors (financial, credit union for its members, agriculture, transport, health, education, etc.) also provide microfinance services to its members. As noted in the context, the majority of cooperative clients belong to social class 2 to 4, as reported by some cooperatives. All cooperatives work under the supervision of the Superintendence of Solidary Economy (SES) except financial cooperatives which are supervised by the SFC.

The number of customers with microcredits[29] nearly tripled over the past 5 years. Between 2007 and 2012 it went from just over 600,000 to 1,700,000, which represents coverage of 6% of the Colombian population. 68% of this growth is caused in banks, followed by MFIs with 17.12% and cooperatives supervised by the SES with 13%. However, cooperatives account for 25% of the portfolio balance indicating that they operate with much smaller amounts and reach lower-income customers.

The percentage of Colombians adults who have access to financial products is 71%, however the difficulties related to the effective use of financial products persist. By the end of 2013 71% of the Colombian adult population had access to at least one financial product; this figure was 59.6% by the end of 2009. With regard to geographical coverage by the end of 2013, only 3 municipalities are not covered by services offered by banks, and only one is not covered by any type of financial institution (SFC and BDO 2014). This increase reflects the efforts the government and the financial sector have made to promote access to financial services (BDO 2013). However, there is still a long way to go in regard to the effective use of such products. For example, out of 51.2 million savings accounts, about 51% were inactive. This figure increased by 3.4 million compared to 2012, and according to the RFI 2013, its origin "is associated primarily to the segment of lower-income customers" (SFC and BDO 2014). From this perspective, both the SFC and the BDO consider that improving the effective use of financial products is one of the biggest challenges of financial inclusion, and their efforts are today particularly aimed at this purpose.

The CB has played a key role in increasing the coverage of financial services. Efforts are being taken to advance in mobile banking. The PC in Colombia is offices, Banking Correspondents (CB), teller machines (ATM) and Point of Service (POS). From December 2008 to 2013, the number of PCs increased by 172.3%. In the case of CB, which are presented in detail ahead[30], it was noted in the RIF 2013 that thanks to these the coverage of financial services increased on December 2013 in 1,069 of the 1,102 municipalities in the country, representing a reaching 97% of the territory. Meanwhile, the PC of financial institutions (ATMs- ATMs, offices, POS) in 2012 totaled 362,670, which represented an increase of 35.6% over the previous year (see Table 2) regarding remote channels, mainly mobile telephony and the Internet, it was noted that they have been strengthening as mechanisms for access to financial services: this is evidenced by the 15% decrease in 2012 of the amounts traded through offices experienced by the country since 2008 (SFC 2012). It is worth noting the use of "mobile advisors" with which NGOs have to offer their products to the population. By December 2013 it was found that NGOs have 2,128 mobile advisers, offering services in 26 departments and 386 municipalities (SFC and BDO 2014).

[29] Microcredit loans are defined as less than 25 SMMLV ie up to 14.7 million Colombian pesos (around USD 7,250 in 2013).
[30] See Section 5

table 2 Annual growth of the number of PC

Source: (SFC and BDO 2014)

Tipo de punto de contacto	Dic-2009	Dic-2010	Dic-2011	Dic-2012	Dic-2013
Oficinas	3.7%	0.3%	0.8%	9.4%	5.1%
CB	15.1%	72.7%	71.9%	68.8%	51.4%
Cajeros - ATM	8.1%	9.2%	7.5%	12.8%	11.4%
Datáfonos - POS	21.9%	13.7%	6.0%	31.8%	35.9%
TOTAL	19.9%	15.0%	9.4%	33.2%	35.6%

The evolution of PC and mobile banking is introducing new elements in the Colombian financial picture. For example, the PC and mobile banking are the modes of payment of the Families in Action, which has 2.1 million beneficiaries who opened their accounts with the Banco Agrario program. The main problem of these users was the great distance with branches, preventing the right use of those accounts to many of the customers. To overcome this problem, in a second phase prepaid cards were delivered to families so that they could withdraw money from ATMs of private banks[31].

Equally noteworthy is the example of Intelligent Coffee ID, which is used not only to identify coffee producers nationally, but also receive payment for sales, and perform other transactions. Currently this Intelligent Coffee ID serves as the basis for a pilot mobile banking developed by Telefonica Movistar, the National Federation of Coffee Growers and Banco de Bogota with IDB support. According to the pilot intended to 300,000 coffee growers nationwide, you can perform operations with money deposited to the Intelligent Coffee ID via cell phone, make payments and get cash in commercial establishments. In addition to this, consulting the price of and account balance will be available.

Access to mobile phones in the country has generated great interest in moving forward with the agenda of promoting mobile banking. 100 out of 103 people in Colombia have cellular subscriptions. With this rate of penetration, promotion of mobile banking in the context of financial inclusion plays an essential role. So much that the GC filed a bill introducing the tools to enable their use and facilitate financial inclusion[32]. In particular, it is worth noting that Colombia has had an increase in transactions through mobile banking of 205% between 2008 and 2011 (from 1.3 million to 3.9 million transactions). Thus, comparing the channels used by the banking sector in Colombia, mobile banking is the fastest growing in recent years (425% between 2010 and 2013). According to a recent study made by the bank BBVA, it was noted that 16 out of the 23 banks that exist are offering mobile banking services in a broad sense[33], which are provided either by smartphone applications or by

[31] It is noteworthy that the precariousness of the systems was that they could not always support a high number of transactions simultaneously, especially at the beginning of the month.

[32] See Section 5.

[33] Which includes online banking via mobile phone.

SMS text on low-end phones. With regard to SMS technology, it was noted that it is being used by eight banks for balance inquiries, recharging cellular credit, payment of public services and transfers. Meanwhile, three banks have created Electronic Deposits (DE), Electronic Savings Accounts (CAE) and processed simplified accounts provided for by law to facilitate financial inclusion[34] (Fernández de Lis, et al. 2014). By December 2012 there were three mobile banking products - product linked to a CELLULAR number, which have common characteristics: (i) product activation from the cellular phone, which can be single range (something that isn't face-to-face); (Ii) papers are not required; (iii) and registration is immediate.

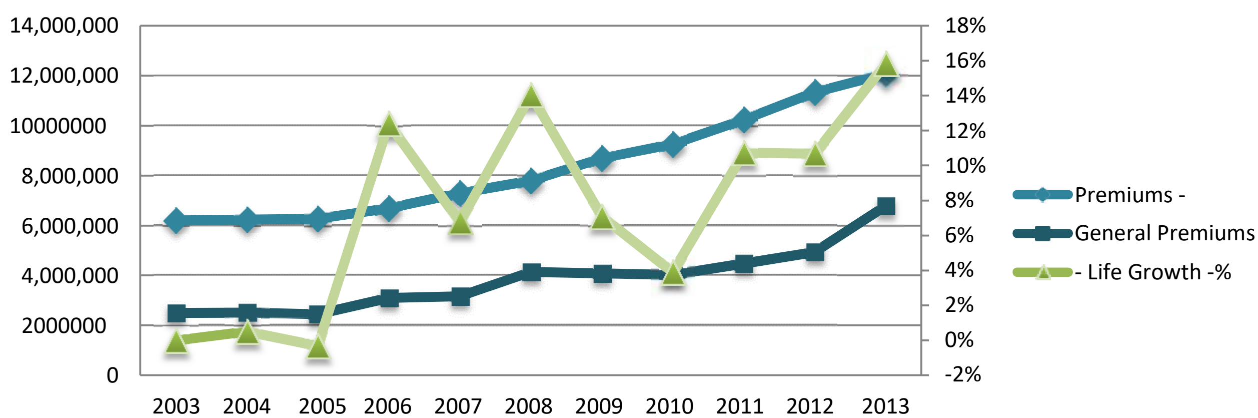
3 The offer of micro insurance

3.1 Main features of the insurance industry

Colombian insurance industry has reported a steady growth in recent years. During the period 2009-2013, the combination of a number of regulatory measures, accompanied by economic development of the country, has facilitated the growth of the insurance market (see Figure 4).

Figure 4 Evolution of the insurance industry in Colombia from 2009 to 2013

Source: Data FASECOLDA, years 2003-2013, adjusted to constant prices; classification according to Swiss Re bouquets.



An additional factor of growth is the participation of the private sector on the offer of social security benefits, allowed by Law 100 of 1993[35]. Currently, these products represent about 25% of the total production in the sector.

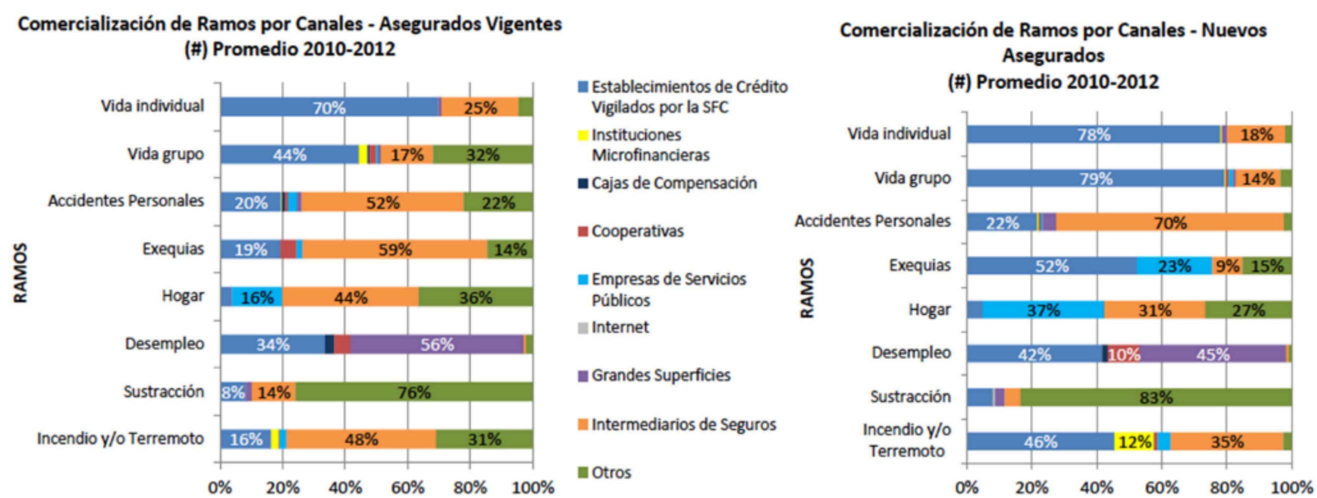
The use of various marketing channels has facilitated the accessibility and affordability of insurance products in Colombia. Since 1997, insurance companies began to use credit institutions to sell certain insurance products. On the other hand, during the last decade they began to

[3. 4] See Section 5.

[35] This law allows the private sector to participate in the pension business, mandatory health and occupational hazards.

market insurance products through other channels, such as public services or large surfaces. These two phenomena have facilitated the provision of accessible and affordable products to social class of the middle and low income populations, which traditionally had no access to insurance products. Thus, insurance lines such as group life and personal accident rates have registered an average annual growth rate of the real 10% (after inflation) over the past 10 years. Figure 5 shows the marketing channels which are most used by classes based on number of insured (Figure 5) [36]. Interestingly, according to the report of the SFC, the most active channels in policy renewal (quantity and value), correspond to credit establishments monitored by the SFC and to insurance intermediaries, the first ones renew more quantity while the second ones generate more value.

Figure 5 Work line marketing channels - insured existing and new



Source: (SFC 2013)

Despite the growing that the insurance industry has reported, the rate of penetration and insurance density remains low, but in the average for the region. Given that the average inflation for the period 2009-2013 was 2%, it can be concluded that the annual growth of the sector in recent years was 12% in real terms, much higher than the overall economy (in the order of 4 to 4.5% annually). Penetration rate[37] was 2.3% in 2009, while for 2013 it was 2.7% and the density of insurance[38] in the country was of 116.2 USD in 2009 and 209 USD in 2013 (Swiss Re - Sigma 2014) . These figures are slightly lower comparing results from Latin America for the same period, as the sub-continent reported a penetration rate of 3.2% in 2013, 300 USD density, and a real annual growth of 9.4% 2013 (Swiss Re - Sigma 2014).

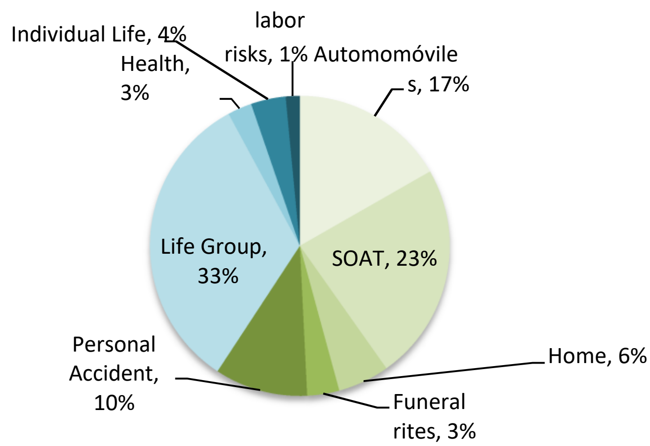
[36] The use of this survey should be done with caution given that it corresponds to a pilot whose purpose was to know the general state of the industry, not particularly the development of micro insurance.
[37] Written premiums / GDP.
[38] Premiums per capita per year.

Figure 6 Policies in force in selected work lines - December 2012[39]

Source: (FASECOLDA 2013)

Total number of policies in force

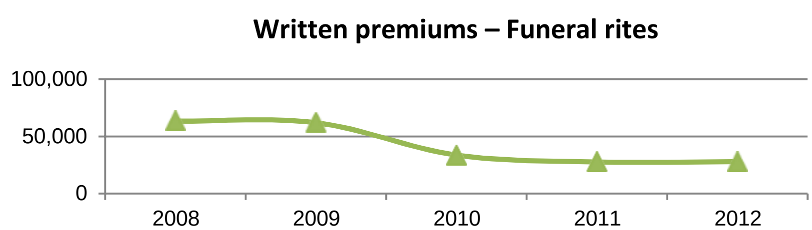
Insurance: 28,040,000



The fastest growing work lines are group life, accident vehicles and people. The work line with the biggest fall is funeral insurance. At the end of 2012, the general insurance accounted for 69% of premiums written in the country[40], group life and vehicles being still the most important work lines (see Figure 6). It is worth noting the strong growth in recent years of insurance Group Life and Personal Accident, within which, as discussed in more detail below many of the products classified as micro insurance in this diagnosis are included. On the other hand, funeral insurance has greatly decreased as a result of the approval of the financial reform of 2009 (Law 1328 of 2009). This law prohibited insurance companies from paying compensation in kind, thus moving most of this market to funeral homes that do not have the same standards of solvency or reserves of insurers. That's how currently, insurance entities can only offer in this work line policies in which compensation is payed as a reimbursement to the insured.

7 Premiums emitted to funeral rites insurance

Source: FASECOLDA-Figures in millions



[39] Occupational risk policies are firm. In 2013, there were approximately 8.3 million workers covered by the system.

[40] If health and personal accident insurance in general is included.

The profitability of the insurance sector has been satisfactory during the period 2009-2013, although in many work lines technical results are negative. However, these have sufficient compensation in other income and investment income. Over the past five years, the sector has achieved a return on equity (net income / shareholders' equity) of 10% on average.

The insurance industry in Colombia has been experiencing remarkable growth, where multiple business models coexist. The number of actors operating in the Colombian market is high: a total of 19 life insurance companies and 24 general insurance. The profiles of these companies are also very diverse: there are commercial enterprises for profit, cooperatives (two entities) and two public companies (Positive and farsighted). Most companies are national (20), but multinationals are also highly represented in Colombia (14) and are on the rise. From this perspective, there are several business offer models in the sector. (Table 3 shows the market share of the industry leaders in December 2012).

table 3 Leaders of Colombian insurance industry according to percentage of premiums

Source: (FASECOLDA 2013)

Life	general
Positiva (23%)	Suramericana (15%)
Suramericana (22%)	Colpatria (9%)
Mapfre (13%)	Liberty (8%)
Alfa (10%)	Estado (8%)

Foreign insurance companies may offer insurance products in the country covering certain risks, Colombian residents can take any policies abroad - subject to certain exceptions, and MinHacienda is allowed to take insurance products abroad that provide protection to risks related to natural disasters. This increases competition and access to products; however, it is important to analyze in the case of the acquisition of insurance abroad by Colombians, the impact of consumer protection in this context as the SFC does not exercise any surveillance on such foreign entities and prudential rules, market conduct and consumer protection result not applicable in this type of insurance.

Prudential rules have recently been reinforced in Colombia, which requires insurance entities to strengthen patrimonial. Several regulatory changes of recent years, such as standards of solvency and technical reserves and the adoption of international accounting standards (IFRS), imply that insurers will have to make an effort to strengthen patrimonial.

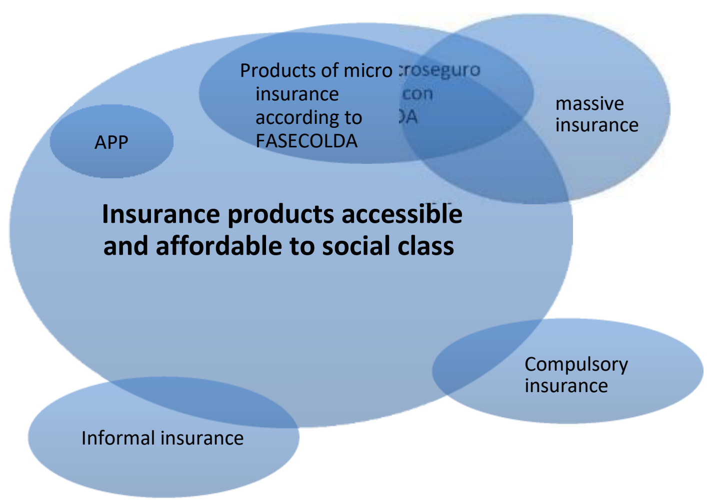
The Colombian insurance union has the credibility of FASECOLDA, the only trade association representing the insurance sector. FASECOLDA's role is not only to represent the insurance companies but also develop strategic coordination activities with the SFC and MinHacienda, regulation, technical and legal issues. Likewise, FASECOLDA has its own staff and working groups formed together with industry, generating data, performing analysis and studies, not only about insurance but also on micro insurance, through the Committee of Micro insurance (CM).

3.2 The market for micro insurance in Colombia

The categories that make up the universe of micro insurance in Colombia. To make a diagnosis on the offer of micro insurance products in Colombia it is imperative to map national insurance products that are currently available and affordable to social class 1, 2 and 3.

The first component to consider is the products known as micro insurance by FASECOLDA. Now, during the course of diagnosis other insurance products that are accessible and affordable to low-income populations were identified. Hence, we find insurance that are categorized as "massive" nationwide and are not included in reports of micro insurance to FASECOLDA. Similarly, we find compulsory insurance, such as Mandatory Accident Insurance Transit (SOAT) as well as insurance products that have been offered as part of APP, which are promoted by the government and have been called micro insurance. Finally, it should be noted that in Colombia funeral services companies offer programs that have certain similar characteristics to insurance products, and in most cases, they are identified as "insurance" by the target population, as seen in the demand section. From this perspective, we include the informal insurance category (see Figure 8).

8 The universe of micro insurance in Colombia



Source: Made by myself

Mapping products that are accessible and affordable to the target population is essential for two reasons: first, it allows a comprehensive diagnosis that takes into account all of these products; and in

Second, mapping allows us to identify products that can affect the perception of insurance from social class 1, 2 and 3. A bad or good experience given on any of the categories is transmitted or spread to others. This is because the population does not distinguish between categories of insurance products and therefore their perception does not vary in relation to those categories.

Having stated the above, an analysis of current micro insurance market will be presented. However, it is noteworthy that the categories of compulsory insurance and informal insurance could not be analyzed in detail because access was not gained to disaggregated information for each case. So, we confine the analysis of micro insurance according to FASECOLDA, massive low-cost insurance and insurance promoted by APP.

3.2.1 Micro insurance according to FASECOLDA and massive low-cost insurance

This section will analyze in detail the product category known as micro insurance by FASECOLDA and massive low-cost insurance. It is noteworthy that these two categories will be analyzed simultaneously, since as will be seen later, a part of insurance referred to as micro insurance by FASECOLDA are massive low-cost insurance.

3.2.1.1 Micro insurance and massive low-cost insurance

The Colombian insurance industry has focused on expanding the "accessibility" of insurance products in the country around the concept of "micro insurance". The high level of competition in the market for Colombian insurance has led in recent years insurers (both cooperatives, private companies and two companies owned by the state – Positiva and Previsora) explore opportunities for selling new products of insurance through new marketing channels. From this perspective, the Colombian insurance industry has led the debate in Colombian access to insurance through the concept of "micro insurance". The definition of micro insurance by FASECOLDA has evolved over time. In a first stage, this definition was primarily quantitative-determined according to the amount of premiums and insurable sum-, but as the debate of micro insurance has evolved in the country, FASECOLDA has integrated qualitative criteria to its definition. Thus, it has now emphasized that such products are designed, in their conditions and procedures, considering the target population and are marketed through appropriate channels for low-income population.

The CM FASECOLDA plays an important role as a platform for sharing and consolidating information on micro insurance, however micro insurance market reports have inaccuracies that have been solved. The CM was created in 2008 and currently has 24 of the 33 insurance companies in the country. The CM presents through its Micro insurance reports the achievements of Colombian insurance companies outside the country and share experiences and best practices of other countries, allowing the exchange of lessons among all its members. The CM can build a common platform of valuable information for the sector, which would otherwise be difficult to achieve. CM members provide monthly data made available to monitor performance of micro insurance market in Colombia. However the following shortcomings that will be elaborated in subsequent paragraphs are presented: (i) taking into account that each insurance entity has its own criteria to qualify its products as micro insurance, the reports contain product information that are not necessarily considered as micro insurance, however FASECOLDA has sought to unify and enforce the qualitative criteria of the definition of micro insurance; (Ii) certain insurance companies actively involved in offering micro insurance, as Cardif Colombia, Suramericana, Allianz and Solidaria, have taken the decision to not share their data; (Iii) only 17 of the 24 insurance companies involved in the CM, report data about micro insurance, circumstance that is because some of them do not offer micro insurance products, but others do offer but do not share their data; (Iv) lack of qualitative data by insurance companies, makes the identification of products that are actually acquired by and for social levels 1, 2 and 3 difficult.

Each insurance company has its own criteria to qualify certain products of its portfolio as micro insurance. While efforts have been made to unify and consolidate the type of information received by the CM, particularly through the refinement of the definition of micro insurance and its application[41], there are still differences regarding the concept of micro insurance among members. Thus: (i) while for some companies micro insurance should be only those insurance products that are intended for low-income population, (ii) other added that the same, by having a clear social purpose, should be responsibility of the State, (iii) while other companies considered micro insurance any low-cost product, regardless of its design as well as segments of the population to which it arrived. This implies for example, that low-cost products that used channels such as supermarkets are seen, and computed, as micro insurance by certain companies, even though they're not designed specifically for low-income population.

Some insurance companies have sought to broaden the base of potential insurance consumers through the use of massive channels, whether potential consumers are of a particular social class or not. While recognizing that this strategy has led some insurance products to be accessible and affordable to social class 1, 2 and 3, this effect is rather collateral.

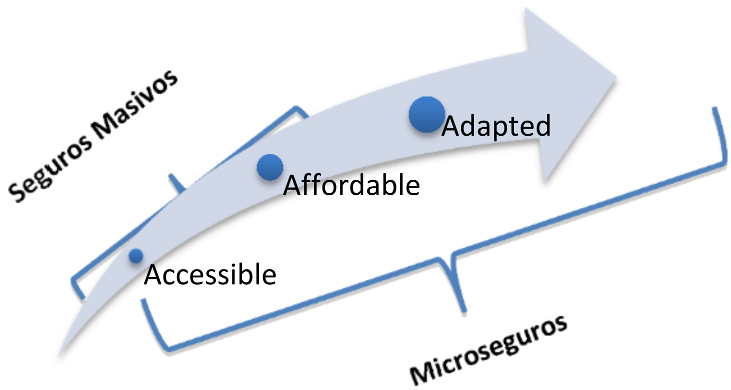
Micro insurance market reports by FASECOLDA include a variety of products that are not necessarily classified as micro insurance but as "massive low-cost insurance". While the ultimate definition of FASECOLDA refers to the fact that micro insurance products should be designed for the target population and its processes and conditions must be adapted for this population (FASECOLDA 2013), it became clear during the field visit these criteria are not followed by most of the Colombian insurance companies that reported information about this market to CM. Thus, the reports include products that are not considered in the strict sense as micro insurance, but as "massive low-cost insurance."

Massive low-cost insurance is defined in this assessment as affordable insurance products that meet the characteristics of (i) universality; (Ii) simplicity; (Iii) and standardization and are distributed by massive marketing channels, such as supermarkets, utilities, among others. Thus, the massive low-cost insurance is an essential tool in promoting access to insurance for the entire population, since they are accessible and affordable. However, these products do not

[41] FASECOLDA recently has made efforts to exclude some products that do not meet the characteristics set out in its definition of micro insurance. Thus, in December 2013 some changes were presented in the form of micro-data collection published by FASECOLDA.

necessarily confront the needs, specificities and hardships of low-income population, so they are not adapted for this target population. (See Figure 9).

Figure 9 Micro insurance and massive insurance
Source: Made by myself



3.2.1.2 Degree of market development of micro insurance demarcated by FASECOLDA

Warning. To analyze the degree of market development of delimited micro insurance by FASECOLDA, micro insurance reports shared by this entity were used. However, as noted previously, these reports have certain deficiencies that impact the results of this diagnosis. Given that it was not possible to obtain disaggregated information products for micro insurance and low-cost mass, it is impossible to distinguish the two categories and show their independent development. From this perspective, this analysis of the level of development should be viewed with caution. With respect to the data used for analysis note that in December 2013 some changes were presented in the form of micro insurance data collection published by FASECOLDA: first, data from some insurance companies were no longer included including Solidaria and data of various products were corrected, not falling under the definition of micro insurance by FASECOLDA. Given these changes occurred when it had already started this diagnosis, this diagnosis uses and presents the data available from 2008 to December 2013, taking into account these changes and reflecting them for previous years.

The percentage of volume of premiums written in Micro insurance is higher than the average for Latin America and the Caribbean. By 2012 the volume of premiums in micro insurance reaches 4.1% of total premiums of the insurance industry in Colombia. This represents a higher proportion than for most countries in Latin America and the Caribbean, which is usually about 2% (McCord, Jaleran and Ingram, The Landscape of Micro insurance in Latin America and the Caribbean 2013). Micro insurance premiums showed growth of 51% - taking the figures of life and general - between 2008 and 2013, as is illustrated in Figures 10,12 and 13. According to FASECOLDA data, the level penetration of

Micro insurance (December 2013) would be 16.1%. These figures, however, seem very high for the reasons explained above: not all products labeled as micro insurance are considered as such in this diagnosis and the same target population is not limited to social class 1, 2 and 3.

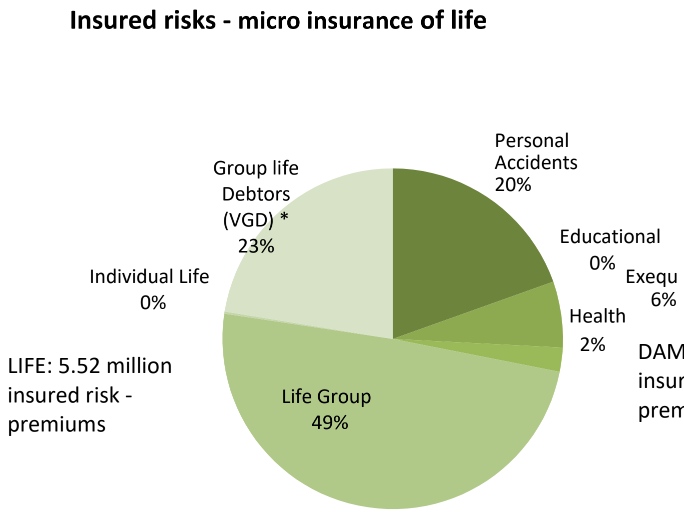
Based on the information provided by FASECOLDA, in the year 2012 in Colombia there were 7.6 million risks insured by a policy of micro insurance (which corresponds to a penetration level of 20%) [42]. However, based on this information it is not possible to say that such insurance are directed exclusively to the target population for micro insurance (levels 1, 2 and 3) due to lack of segment information by social class and the limitations mentioned above. Similarly, it is not possible to say that members of these social classes are not accessing other insurance categories previously identified.

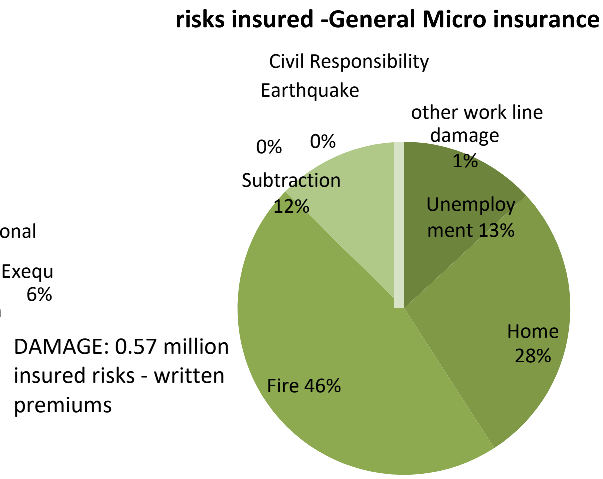
However, based on the information shared by FASECOLDA in December 2013, which represents a refinement in the definition and products considered as micro insurance as well as the exclusion of certain insurance companies, in Colombia there were 6,090,000 of risks insured by a micro insurance policy (which would correspond to a penetration level of 16.1%. With this in mind, FASECOLDA estimated that 18% market share is not included in their monthly reports, so that according to FASECOLDA the actual number of risks could be estimated at around 7.4 million, which means even higher penetration (19.5%). However, the consultant team does not have information on how FASECOLDA makes such estimates.

The micro insurance market is not diversified. Although apparently the micro insurance market in Colombia seems to have a significant degree of development, the products offered have a low level of diversification. The vast majority of the risks covered fall into the category of personal insurance. Despite the 49% growth experienced by the sector between 2008 and 2013, Personal Accident and Life Group products, including debtor's life, represent 83% of all insured products (Figure 10). During 2013, the number of insured leveled off and decreased in sales funeral insurance, reflecting a competitive and relatively saturated market (Tables 5 and 6).

Figure 10 Life Insured Risks and Damage - Micro insurance to December 2013
Source: (FASECOLDA 2013)

[42] Number of insured risks divided by the target population indicated in the conceptual framework: 37.8 million people.





There is a lack of supply of health micro insurance products. This could partly explain why social levels 1, 2 and 3 have universal access to health services through the Mandatory Health Plan (POS) and the subsidized regime. However during the visit questions about the quality of such services, affordability, accessibility resulting from the mobility of Colombians between departments and the need for additional low-cost plans for these social classes as well as the informal sector, agricultural, among others were found. The POS covers both formal sector employees and workers in the informal sector and the most vulnerable segments of society through a subsidized (and for households with scarce resources identified through SISBEN, no copay) regime.

Equidad, Mapfre, Royal Sun Alliance (RSA) and Solidaria are the companies with higher penetration premiums in the micro insurance market. However, the proportion of the portfolio (% of its premiums in micro insurance in relation to the entire portfolio) of these four leading companies in Micro insurance varies widely: 20% Equidad, 20% Mapfre, 19% RSA and 14% Solidaria (Table 4).

table 4 Penetration of micro insurance premiums by insurer

Source: (FASECOLDA 2013)

(COP million)	Micro insurance portfolio ratio
Solidaria	14%
Mapfre	twe
RSA	19%
Equidad	twe

Using the definition of micro insurance adopted in this study, businesses that are more serving the target population are Mapfre, Suramericana and Libertad. This is because these insurers are offering products specifically designed to confront the needs of the social levels 1, 2 and 3, as they are based on market research, they have learned from the distribution channels to define the detailed characteristics of the micro insurance products and processes used to offer to a well-defined target population.

Table 5 Micro insurance - damage

Source: (FASECOLDA 2013)

Damage Insurance	Number of insured (December 2013)	Number of insured (December 2008)
Unemployment	74,914	9,706
Home	157,994	68
Fire	265,159	2,469
Subtraction	66,628	548
Others	5,298	0
TOTAL	**569,993**	**12,791**

Table 6 Micro insurance - life

Source: (FASECOLDA 2013)

Life insurances	Number of insured (December 2013)	Number of insured (December 2008)
Accident	1079455	427,633
Funeral rites	346,571	766 939
Health	126,124	169
life Group	2719217	2851710
Individual life	12,588	0
debtors group life	1238020	22,467
TOTAL	**5521975**	**4081720**

The insurance sector identified the following seven challenges faced to further develop the micro insurance market. In interviews conducted during the field visit, he asked insurers what were the main challenges encountered when trying to develop products and services for low-income Colombians. Insurers identified the following challenges, which are presented in order of importance:

1. **Access to the population**: Find channels that truly provide access to the target population remains a challenge for insurance companies.
2. **Premium collection**: With a population of low-income that summarily uses formal financial services there are limited options to raise premiums, it is extremely difficult to develop an efficient and flexible for collection of raw system. In addition, payments via mobile phones are still incipient in Colombia and use of PC, especially CB, is still limited.
3. **Renewal and persistence**: Persistence rates are very low, even when there is a state grant to support those hedges. The companies mentioned very variable rates: in some cases, renewal fees can be up to 40% or more for the first few months and then stabilized; in other cases, the average duration can be 36 months or more. Low renewal rates are a

challenge to the viability of the programs, since the costs incurred to acquire a policy only are offset with reasonable persistence of the same.

4. **Commissions by intermediaries and channels**: Insurers mentioned commission rates between 25% (lowest) to 70% in extreme cases, such commissions are very high compared with other countries and in accordance with the criteria established by international assessment methodologies of the value for the customer and sustainability of micro insurance products that have been setting some good practices. This naturally reduces the viability of the programs, the affordability of products and value for low-income households of micro insurance products.
5. **Training of intermediaries**: Training of intermediaries requires time, dedication and represents a significant financial expense for businesses.
6. **Product Design**: In addition to the problems of availability of statistics on the risks, difficulties arise when trying to remove certain clauses and exclusions. The latter usually happens because such clauses and exclusions are imposed as a requirement in reinsurance contracts.
7. **Simplifying procedures associated to regulation against money laundering (SARLAFT)**[43]: These procedures have been simplified, for example through filling out questionnaires of customer knowledge to certain insurance products whose characteristics are similar to micro insurance. However, even filling out this form is required at the time of payment of compensation. On the other hand, the minimum amounts set by the rule that excluded for the processing of the questionnaires for certain products are very low, and is likely to exceed some micro insurance products such topes[44].

3.2.2 Micro insurance products promoted by the Colombian government in the context of PPPs

The Colombian government not only promotes the adoption of public policies conducive to the development of micro insurance, but also promotes PPPs to design and implement micro insurance pilots destined for social levels 1, 2 and 3. As was noted in the context section and will be noticed in more detail in Section 5, the government of Colombia is committed to fighting poverty and promoting financial inclusion, including access to insurance. This has been reflected not only by recognizing insurance in their public policies, but also by promoting PPP to offer micro insurance products to social levels 1, 2 and 3. In particular, the aim of PPPs in the field of micro insurance is to generate pilot projects- together with insurance companies who are interested in the sector, so that the generated experiences will serve to improve knowledge of the underwriters on the socioeconomic reality of the target population which is intended to follow; and develop the "know-how" of these entities in the design of specific products to meet the needs of the target population. A description of the PPP that favors micro insurance in Colombia is offered.

1. *Promoting micro insurance by the DPS for the beneficiaries of the "Program for Income Generation and Employability".* In this program mentioned in the context section, the DPS 2 contemplated offering micro insurance products aimed at the beneficiaries of programs

[43] Management system risk asset laundering and terrorist financing
[44] See Section Regulation.

"Microenterprise Capitalization" and "Saving Women in Action". They are two micro insurance products providing life coverage, total and permanent disability and funeral assistance, which have as their counterparts insurance companies AIG and Generali. (See Table 7).

Table 7 Results of PPP between DPS and Generali and AIG

Source: DPS

	Generali (2011-12)	AIG (2013)
Number of insured	64,239	85.928
Sum insured per policy	7,000,000 + 3	8,000,000 + 2
Premium amount	15,000	14,700
Subsidy	-	-
Number of Deaths	30	Less than 35
renewals	26,386	12,000
Loss ratio	7%	<28%
Claims frequency	0.05%	0.04%
Renewal rate	41%	14%

Compared with other segments of the population, frequency rates and accident reported by the DPS are low, which could mean a lack (for beneficiaries) of coverage offered through this program. So, that the insured and / or their beneficiaries probably do not claim the benefits of their insurance coverage for lack of knowledge of the grievance mechanism or the existence of the policy. That assumption could be confirmed by low rates of renewal.

2. *The pilot project BDO conducted with Positiva Insurance Company SA, during the years 2012 - 2013, benefited with life insurance to 39.201 beneficiaries of Red Unidos (extreme poverty) and Families in Action (vulnerable people with children in school age) in 21 municipalities of 15 departments of Colombia.* The product of life micro insurance offered to the beneficiaries consisted of insurance that covered in case of death from any cause, offering an assured sum of 3 million COP (1476 USD) and coverage of funeral grants of 1 million COP (492 USD). This annual coverage had no exclusions, covered the beneficiaries as a group and did not establish age limits, the premium per insured was 10,000 COP ($ 4.92) and BDO paid all the premiums in the first year, equivalent to 392 million 100,000 COP ($ 192,913). During this period the loss ratio was 68%, with 67 deaths (death by homicide and suicide death, other natural death), between the 39.201 insured, equivalent to a rate of around 0.17%. During the insured period, the beneficiaries of micro insurance paid an amount of 4 million COP ($ 1,968), in each case of death of the insured in terms ranging from 6 to 60 days, mostly between 6-30 days.

Thanks to tracking the performance of this program of micro insurance today has information on the risk exposure of this population (during that time there were 150 deaths) and the decisions of the customers belonging to this segment (see Table 8).

Table 8 Age range of disaster-stricken people

Source: BDO

Age range	Deaths	Percentage	% Of insured
Up to 30 years	3	4%	62%
From 31 to 40 years	8	12%	
From 41 to 50 years	23	3. 4%	35%
From 51 to 60 years	17	25%	
More than 60 years	6	24%	3%
TOTAL	67	100%	100%

In 2013 activities for renewing policies were carried out, during which each insured woman, had to pay the premium value corresponding to 10 thousand pesos COP ($ 4.92). That payment could be made through the account that families have with the Banco Agrario, Davivienda or banking correspondents. the initial characteristics of micro insurance in their coverage[45] and suscripción[46] remained. However, the Positiva added an aid of dismemberment. Meanwhile BDO financed a communication campaign (awareness) and potential costs to make debits accounts interested in renewing. As a result of the renovation it was achieved that 30% (11,938 women) granted authorization for the payment of the premium (automatic debit): 9,066 Banco Agrario and 2. 872 Daviplata. Finally, the renovation was effective in 4,327 women after two attempts by the Banco Agrario, they had funds in savings accounts, necessary to cover the value of the premium. The lessons learned from the BDO model are contained in Box No. 2.

[45] It provides: (i) under death from any cause (insured amount of $ 3,000,000); (Ii) funeral assistance (insured amount of $ 1,000,000) which is automatically activated when the death under affected; and (iii) pre-existing conditions.

[46] Subscription features are as follows: (i) minimum age insurance, no income ceiling for the stop or stay; (Ii) inclusion automatically insured for the whole group; (Iii) valid for one year; (Iv) no kind of statement of insurability is required; and (v) there were no exclusions of any kind.

3. *Since 2003, Bancóldex started the design and development of products and services to help solve the problem of financial exclusion of micro-entrepreneurs and SMEs.* Colombian bank business development, Bancóldex SA, has made several alliances with major insurance companies in the country, to design the FUTUREX PROGRAM - MICRO INSURANCE LIFE AND PROPERTY DAMAGE, and insurance for SMEs (see Table 9). These private public programs are designed to provide low-cost insurance to reduce social vulnerability of the small entrepreneur and their family, and SMEs. These insurances are offered through financial institutions part of the Bancóldex network, which consists of about 67 MFIs, which serve more than 1,500,000 micro entrepreneurs.

Table 9 Micro insurance products by BANCOLDEX

FUTUREX LIFE MICRO INSURANCE	This Suramericana product provides protection against the following risks: death from any cause, Total and permanent disability; serious diseases; and additional court-ordered relief for household expenses for death or disability assistance for funeral expenses for death, with the possibility that the aid be extended to the whole family. The subscription of this insurance by the IMF for the benefit of its customers is a condition required by Bancóldex so that it will provide support to the MFI. Bancóldex has sought to make tangible product through vaccination campaigns through the IMF, celebrating Mother's Day with the beneficiary and delivery of aliments, campaigns for delivery of school kits, among others. In April 2014, insurance distributed through MFIs with quota in Bancóldex, in the FUTUREX VIDA program counted with 54.023 in forced insured, with an assured value of COP 237,196 million (USD 123 million) have been paid as claims over COP 1,630 million (USD 840,000).
FUTUREX MICRO INSURANCE DAMAGE	This product is currently suspended but through this product Mapfre offered protection to property of the employer against the following risks: (i) Basic[47]; (Ii) internal damage[48] and (iii) qualified theft[49]. The product was of voluntary subscription. The product was suspended when it confronted various obstacles: (i) first, during the rainy season of 2011 covered losses totaled COP 2.000'000.000 (1,037,012 USD), a situation that broke the financial balance of the product and led to product variations that were deteriorating and preventing the objectives sought initially were met; and (ii) secondly, certain regulatory barriers related to marketing the product through MFIs were identified. According to the current regulation only insurance with the characteristics of universality, simplicity and standardization could be distributed through the network of the credit institution (MFI), however in the case of the type of insurance was not clear compliance these characteristics.
MICRO INSURANCE SMEs	Once identified the market gap insurance products for SMEs, and analyzing in detail the potential demand for products from this segment, Bancóldex decided to promote insurance for SMEs. Thus, the invitation to all insurance companies legally established in the country and with the assistance of the joint venture formed by Aon Risk Services and JLT Corredores de Seguros, Bancóldex began the process of designing an insurance product that would allow Bancóldex to meet the following purposes as development entity: (i) obtain adequate assurance for industrial SMEs,

[47] Fire, lightning, explosion, high winds, hail, water damage, flooding, landslides, avalanche, impact of vehicles, falling aircraft, earthquake, volcanic eruption, riot, riot or civil commotion, malicious acts and terrorism.
[48] Covers internal faults (mechanical, electrical or electronic) or damage to equipment caused by short circuit, arc and similar arcs, or electrical disturbance (lightning).
[49] It covers loss of contents located in the insured premises as a result of qualified theft. Similarly, damage to insured property or the building that contains, as a result of the attempt qualified theft.

	commercial and service, in order to address the adverse effects of the risks of their assets, of their responsibility or natural disasters; (Ii) provide the Bank's objective product assurance market with high added value; (Iii) encourage the culture of assurance within Bancóldex customers, thus increasing insurance penetration in the economy would be supported; and (iv) encourage the use of bank credit lines, offering the possibility of contracting accompanied indebtedness of the insurance policy. ACE Seguros SA was selected to operate the product designed by the Bank. The product aims at offering SMEs a modular insurance to cover the risks of their assets (buildings, machinery, electrical and electronic equipment, portfolio and lost profits), of its liabilities and contractual performance, depending on the type of business carried the company. This will be done in association with one or more insurance companies.

4. *The Banco Agrícola is currently working with two private companies (Equidad, and Cardif) in the development of micro insurance products for its customers.* The current product offering covers death from any cause and insured corresponds to 1.8 to 6 million POPs (including funeral assistance and a monthly rent for 6 months) values. A bank customer can be secured and optionally their spouse, premiums ranging from about 8,000 and 51,000 COP per year. The total number of beneficiaries of this program was approximately 20,000 to October 2013.

5. *The Colombian government's priority is the creation of PPP to promote the agricultural sector*. The Ministry of Agriculture and Rural Development[50] offers this agricultural insurance in alliance with La Previsora, Suramericana and Mapfre. Although not particularly aimed at small farmers, this insurance is highly subsidized: 60% (70-80% if the farmer has Finagro credit for the insured crop). The producer must pay 40% of the cost of the premium plus VAT and can cover biological hazards and natural hazards such as excess and deficit rainfall, high winds, floods, frost and hail. The Ministry has an annual budget for this subsidy but sets maximum amounts of sum insured per hectare. The compensation mechanism is made with adjusters and is not based on index. Entities such as financial institutions, cooperatives, agro-supplies stores and guilds may offer insurance policies. In total, 60,000 hectares are insured. However, data on the size of insured farms are not public. Most common insured crops are sugar and bananas (wild rice activities and to a lesser extent). There are no public data on claims paid.

Box 2. Lessons learned model BDO

Source: BDO

Lessons learned from the model of BDO

- **Lack of knowledge in the target population of the insurance industry:** The BDO planned to launch a pilot for three years. In the first year they subsidized the full premium in the second year only half, in the third year customers would renew and provide between 90 and 100% of the premium. In the first call no company participated in the tender. The main reason given was the lack of knowledge of the sector to ensure a commitment of three years. Banco Agrario found similar difficulties.
- **Violence against women:** of the 50,755 insured, only 39,000 policies were delivered. According to the BDO, the non-delivery of policies was due to agents of the Red Union identified in cases of extreme vulnerability, to inform the existence of an insurance policy to potential beneficiaries, risked life of insured women. (Violence against women was not the only reason why it was not possible to deliver policies, logistical issues affected the process).

[50] http://www.finagro.com.co/productos-y-servicios/seguro-agropecuario

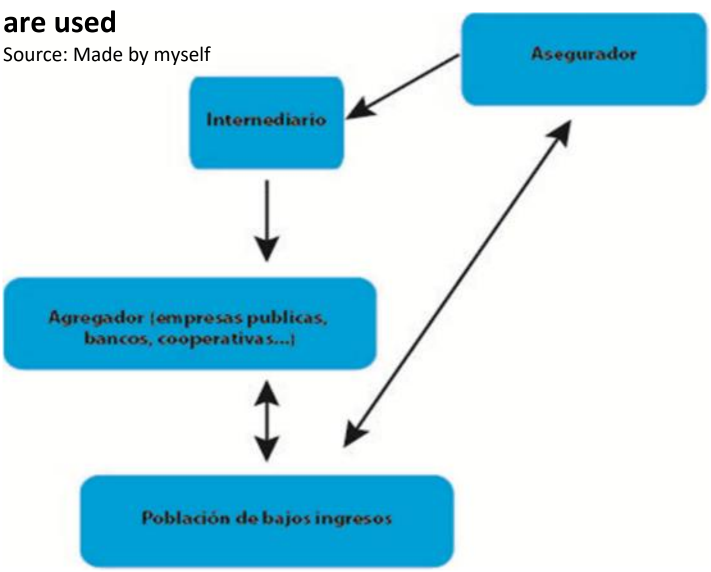
- **Premium payment:** once the initial insurer and the BDO decided to renew the policies they identified some difficulties as the payment of premiums and commissions charged by banks. For the renewal, the BDO would cover the costs of debits accounts, nevertheless it managed to develop a partnership with the Banco Agrario that avoided this charge.
- **Signing Forms:** Red Unidos agents in the renewal process were allowed to call clients and inform them that if there was an interest in maintaining the policy, they should visit the offices of Positiva to sign the authorization. To facilitate the process, Positive offices were made available and care centers in schools and colleges in the cities participating in the program.
- **Mortality rate:** the mortality rate varied by age but the overall mortality rate is very low and acceptable financial results for insurance companies. It was then possible to ensure this stratum 1 without incurring losses, in this pilot project.
- **Low renewal:** research is needed to better understand the reasons why the renovation was so low.

3.2.3 Channels and transactional platforms

In this section we describe the channels and transactional platforms that have been used to distribute micro insurance products in Colombia and how they are participating. Since 2002 the insurance sector in Colombia has explored options to massively offer insurance through multiple channels.

Figure 11 triangular Relationships in which channels are used

Source: Made by myself



The use of channels that favor the accessibility of micro insurance products continues to rise, while traditional intermediation channels have lost ground. According to information obtained during interviews with the insurance industry during the field visit during the last 10 years insurance intermediaries -brokers, , agencies and agents- have developed much more slowly comparatively to what has happened with alternative channels, the latter being the banks and financial institutions, as well as certain massive channels (supermarkets, utilities, etc.). However, it is noteworthy that when alternative channels are used, triangular relationships are presented, so that in some cases professional insurance intermediaries such as insurance brokers and agents involved in the distribution chain of the product (see Figure 11).

This trend is evident in Figure 13 which presents the results of the survey of distribution channels by 2012 made by

Figure 12 "canned" products of Suramericana

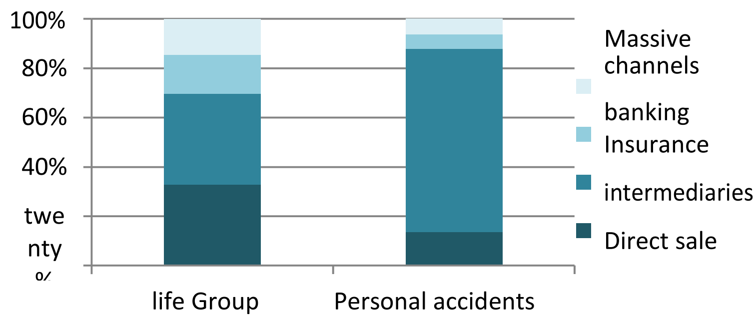
Source: Markets Success

FASECOLDA[51], for work lines Group Life and Personal Accident in terms of number of insured.

Insurance companies promote their products through their employees, but also through internet and telemarketing. Some of the micro insurance products distributed through supermarkets, are complemented by direct sales mechanisms. For example, Suramericana micro insurance “canned” products (See Figure 12), sold in supermarkets Exito, are not "activated" until the moment when the purchaser of the product calls the call-center of the insurer to receive the necessary information and accept the conditions, signing the insurance contract (see Figure 11). While online promotion for the case of micro insurance is underdeveloped, it is noteworthy that there are government programs aimed at increasing the penetration of these services in social levels 1, 2 and 3.

Figure 13 Life Group and Personal Accidents - December 2012

Source: Fasecolda - Survey



3.2.3.1 Distribution channels currently used

Micro insurance products are mostly distributed through utilities, the solidarity sector and Bancaseguros. The main channels used to distribute micro insurance products according to FASECOLDA are: (i) utilities - gas and electricity; (Ii) the solidarity sector; and (iii) Bancaseguros (See Table 10).

Table 10 Distribution of micro insurance products through channels

Source: (FASECOLDA 2013)

	Number of insured	Proportion of insured	Written premiums ratio
Public Utilities	1961838	40%	49%
Solidarity Sector	1032719	21%	14%
bancaseguros	805,186	17%	twe
Others	374,871	8%	4%

[51] FASECOLDA conducts periodic surveys to determine the distribution channels of some insurance. These surveys usually do not achieve 100% response, anyway they are relevant for an understanding of the distribution sector by branches of activity.

IM F	259,263	5%	8%
Shops, superstores and Other Correspondents	134,735	3%	2%
Sales One to One	133,234	3%	0%
Compensation Funds	87,103	2%	2%
remittances	65,000	1%	1%
TOTAL	**4853949**	**100%**	**100%**

The data in Tables 11 and 12 show that average premiums of these channels are very affordable for social levels 2-4 and the sums insured are of interest. However, according to the data collected, the exact population segments to which they are addressed, such as levels 1, 2 and 3, which are being attended by channels such as supermarkets / shops and banks are not known for insurers.

Table 11 Average monthly premiums per channel

Source: (FASECOLDA 2013)

	Average Monthly premiums (Dec. 2013 COP)	Sum assured (Dec. 2013 in thousands of COPs)	Proportion of insured
Microfinance institutions	6011 COP | 2.9 USD	7177 COP | 3.5 USD	5.3%
Bancaseguros	4838 COP | 2.3 USD	2978 COP | 1.4 USD	16.6%
Public Utilities	4674 COP | 2.2 USD	17027 COP | 8.3 USD	40.4%
Compensation Funds	4129 COP | 2 USD	7732 COP | 3.8 USD	1.8%
remittances	2952 COP | 1.4 USD	7728 COP | 3.8 USD	1.3%
Solidarity Sector	2532 COP | 1.2 USD	12715 COP | 6.2 USD	21.3%
Shops, superstores and Other Correspondents	2490 COP | 1.2 USD	7618 COP | 3.7 USD	2.8%
Others	1842 COP | 0.9 USD	10172 COP | 5 USD	7.7%
Sales One to One	530 COP | 0.2 USD	11636 COP | 5.7 USD	2.7%
Total	3891 COP | 1.9 USD	7846 COP | 3.8 USD	100.0%

Table 12 Sums insured average per bouquet

Source: (FASECOLDA 2013)

Bouquet	Insured Amount Average (in thousands COP -
Personal accidents	27824 COP | 13689 USD
Funeral Rites	2748 COP | 1352 USD
Health	20537 COP | 10104 USD
life Group	6522 COP | 3209 USD
Individual life	18607 COP | 9155 USD
Group life Debtors (VGD) *	2661 COP | 1309 USD
Total Personal Insurance (no VGD)	12032 COP | 5920 USD

1. *The distribution of micro insurance products through Public Service Companies.* The public service (water, electricity and natural gas primarily) companies have been used to distribute products

Box 3 Cases of interest using public service companies

Source: Made by myself

Cases of interest using utilities

A partnership between MetLife and AIG allows natural gas company Fenosa to cover 10% of its 2.2 million customers with personal accident coverage and cancer (70% of the policies), or their EPYMES and homes from damage. The vast majority (75%) of those insured customers of Fenosa belong to social levels 1 to 3. The existence of joint monthly bills between the contracted service and insurance allow easy collection for those low-income groups.

In 2011, Mapfre reported 600.0000 policies sold in the framework of its partnership with energy company Codensa; 81% of its customers were in social levels 2 to 4. 50% of the toppings were funeral rites insurance and now Codensa offers 6 types of coverage in addition to the payment of SOAT.

Of micro insurance since 2001. With the alliance between Condensa (energy trading company) and Mapfre in Bogota, being the first experience. The public service companies allow premium collection efficiently once their Customers have given their consent to take such products through the intermediary of agents which promote products door to door. The public service companies are generally the policyholders -case in which their customers are insured of a collective policy - and usually signed multi-year contracts for pre-paid fees, which range between 10% and 35% of anticipated volume of premiums, plus fees charged. These costs are relatively expensive for end users (Koven and Martin 2013). Today through the utilities about 1.9 million risks according to FASECOLDA are insured, representing the largest channel according to figures by FASECOLDA with a third of the risks insured and half of the premiums written. Six companies use this channel, which is especially used to sell funeral insurance and home: 23% of funeral insurance and 37% of household according to the SFC Survey - "Financial Inclusion Insurance Sector" (SFC 2013) (See box 3).

Aseguradora Solidaria has developed a micro insurance product in association with the funeral cooperative Los Olivos. Life insurance is part of the Integral Family Plan, a financing funeral plan and life cover: protection includes food stamps, coverage in case of accidental death or disability, assistance home, a hospital income.

2. *Distribution of micro insurance products through the solidarity sector*. Cooperatives have two insurance cooperatives (Solidaria Insurance and Insurance La Equidad) grouping half of the insured micro insurance in the country according to data from FASECOLDA. Although these two entities are not only partners in the cooperative sector, their natural space is the members of the cooperative sector, which amount to about 5 million members. Equidad meanwhile works with 600 cooperatives and the 6 micro insurance products offered represent 20% of its portfolio. As indicated in the foregoing manner of context section, the cooperative sector in Colombia is quite important and is constantly growing, so that this distribution channel is of great interest.

3. *Micro insurance products distributed through bancaseguros***.** According to data by FASECOLDA in the category bancaseguros credit institutions are included, such as ProCredit banks, Banco WWB, Bancamía, the Banco Agrario or Caja Social Bank and commercial banks (representing a low

The Agricultural Bank offers affordable micro insurance products to microcredit clients. In 2012, the Agricultural Bank had 32,000 insured with life insurance equity. In 2013, we had 22,000 insured with their product with Cardif. Given that the Banco Agrario had 340,850 microcredit clients in 2013, one could conclude that the current insurance penetration for its customers, is 6.4%.

stake in the figures) that provide microcredits and services for social levels 1, 2 and 3. Currently bancaseguros represents the second type of channel in terms of written premiums according to figures by FASECOLDA, with nearly one million policyholders.

While their role is important, it is noteworthy that although much of the target population in Colombia for micro insurance has access to these credit institutions (through transactional platforms), the vast majority do not necessarily use them. This suggests that it is possible that within the million insured through credit institutions, most belong to upper social level.

4. *Micro insurance products offered by MFIs*. As previously noted, in addition to credit institutions, microloans are offered by a dozen NGOs and foundations in Colombia and are not subject to control by the SFC. MFIs have group policies offered through their own personal coverage to their borrowers. However in 2013, the number of insured through the IMF lowered considerably by FASECOLDA data (excluding credit life insurance offered by MFIs) reducing risks only 326,738. This is significant because MFI clients tend to fit perfectly with the profile of vulnerable or low-income population that are theoretically oriented for micro insurance.
5. *Superstores offering "micro insurance".* Supermarket chains like Éxito, Carulla, Jumbo, Olympica, among others, have signed partnerships with insurers to offer insurance products to its customers. An interesting fact is that their stores are present in very different areas, adapting the typology of them to the area where it is located. This implies that a portion of the risks insured and reported by these channels may have been effectively employed by individuals and households belonging to social level 1, 2 and 3. However, considering that the data by FASECOLDA does not provide a distinction in social class, it is impossible to verify what type of population has access to these products. These products are mostly offered through insurance group or collectives. In some cases the insurances is activated through a phone call after the purchase, but in other cases the product is activated with just the purchasing of the product.
6. *The use of compensation funds as distribution channels is still small.* Compensation Funds are private organizations that distribute social services programs (health, education, housing) of State to the formal sector of the population in the framework of public-private partnerships. This channel is of interest to distribute micro insurance products to employees at social levels 1, 2 and 3: for example 71% of members served by Comfama, in Antioquia, earn less than 2 Minimum Monthly Legal Wages (SMMLV). Currently, entities
insurers such as Suramericana, Mapfre and MetLife have agreements with some compensation funds, including Comfama, CAFAM and Compensar. However, despite the enormous potential of this channel, the use and penetration of the same is very low, as it has only 10,000 insured (which does not include those insured by Suramericana), ie covers only 0.1% of the members of the compensation funds in the country.

> In Colombia there are 43 compensation funds that cover all departments of the country: 9.6 million households and 7 million workers are affiliated to them (ASOCAJAS 2013)

Although these alternative channels provide access to low-income social levels, some of them are too expensive. Alternative channels used at present are quite costly according to the information shared during the diagnosis. Fee levels of 40% to 70% were mentioned, reducing the amount of premiums for insurers and increasing the cost of coverage for low-income policyholders.

3.2.3.2 transactional platforms currently used

Means of payment and collection of alternative premium are underused. In addition to traditional options, the development of PC, electronic accounts, the use of telephones, expanding networks CB or use of cards as PayPass and mobile solutions as RBMóvil are still at an early stage, at least in relation to micro insurance and services compared to other countries. With regard to the use of mobile banking, the President of the Banking Association of Colombia (ASOBANCARIA), Maria Mercedes Cuellar, recently noted that currently some banks are offering mobile banking "and provide benefits of micro insurance" through mobile banking (Cuellar 2014).

3.2.4 Assessment of the value of micro insurance products offered in Colombia

The vast majority of micro insurance products offered don't They respond to the needs and characteristics of the target population of micro insurance. After analyzing in detail the policies and micro insurance products currently offered it can be concluded that the coverages and their characteristics are not found in most cases adapted to the target population. In other words, the vast majority of products do not follow the guidelines of best practices of micro insurance, represented by the term 'SMOOTH' (Simple, Understood, Accessible, Valuable, Efficient) (McCord, SUAVE Checklist for Micro insurance Products: Enhancing the potential for success 2012). In general, most companies, with some exceptions, admit they do not perform studies of comprehensive market nor detailed analysis of the needs of the target groups. Thus, in general terms there is no detailed understanding of the needs of the target population or have developed communication strategies appropriate for a better sale of products referred to as micro insurance. As a result, most companies have not taken steps to simplify and adapt those products to target populations. This deficiency is illustrated by: (i) the inadequacy of the coverage offered, as well as the procedures and documents applied and used; as well as financial performance indicators and micro insurance in Colombia, as explained below.

Figure 14 accident rates in micro insurance 2013

Source: FASECOLDA

Ramos	Indice de siniestralidad 2013
Accidentes Personales	18.5%
Exequias	21.9%
Vida Grupo	31.1%
Otros	14.6%
Total sin VGD	23.3%
Total con VGD	23.8%

The customer value of the products considered by companies and FASECOLDA as micro insurance is relatively low. This is illustrated when performance indicators are analyzed and compared, together, to the benchmarks of good practice in the field of micro insurance:

1. *Loss ratios reported to FASECOLDA are very low compared to traditional insurance and good practices in micro insurance*: disaster[52] index indicated by FASECOLDA for Micro insurance was below 30% since 2011 (see Figure 14). An index of average loss ratio of 20% is the symptom of insurance products that do not offer adequate protection, nor a good cost-benefit ratio for segments that acquire them. It may be that the premiums are too high for the risks covered, policyholders do not claim for lack of knowledge of their rights or processes, or operating expenses incurred are too high. According to industry best practices, accident rates should exceed 50% (Garand and Wipf, 2012).
2. *The operating expense ratio shows that the insured receives a reduced product value, as their premiums don't work to pay claims incurred*. According to industry best practices, operative expenses[53] rates should not exceed 20%. However in the case of micro insurance the operating expense ratio is higher. From this perspective, a significant proportion of operating expenses seem very high in the case of micro insurance products because of the fees in force in the Colombian market for certain distribution channels, which, undoubtedly, are needed to provide social levels 1, 2 and 3 products specifically designed to meet their needs. In some cases, these commissions reach 70% of the total cost. This not only represents a reduction of customer value as these costs are usually transferred to it, but also it entails a difficulty for the insurance company both financially and operationally, it constitutes an obstacle to the expansion of insurance services for lower income households. On the other hand, professional intermediaries used in some triangular relationships may increase the cost, which is transferred to the insured, without real value necessarily added by its intervention.
3. *A large part of the insured risks are "packaged"*. The types of insurance offered not only have limited diversification in relation to the risks covered, but are also mostly products offered linked to other financial or non-financial services. Thus, these products are "packaged" as these are tied to credit or sale is induced in conjunction with other services. In other words, they are not insurances that are spontaneously chosen from several options. This lack of choice also represents a reduced value for the customer.
4. *Renewal rates vary considerably according to the micro insurance program and the insurer*. Rates shared by insurers are between 15% -70%, which is not only a challenge for insurance companies but also means that policyholders do not perceive the value of the products as the costs are too high or it is not so easy for them to renew policies. The highest rates of renewal are when payment is conveniently linked to the payment of a utility bill.
5. *Product design without investigation, as is the case in the vast majority of products in Colombia, generates a massive supply of products that do not respond adequately to the needs of the target population*. In this sense it is impossible to take into account the preferences of the population if they have not conducted market research studies of qualitative type. On the one hand, not only are the types of coverage

[52] The loss ratio represents the ratio of claims paid and premiums collected in a given period. This index reflects the ratio between the cost of claims incurred in a given portfolio of policies and the overall volume of premiums has earned in the same period in such portfolio.
[53] This index is composed of the proportion of micro insurance premiums spent on the bidding process and insurance service instead of be returned to policyholders.

limited to certain work lines, such as Personal Accident and Life Group but also affordable coverage as Personal Accident provides a fairly reduced protection in terms of covered events and probability of occurrence. On the other hand, most of the existing products in the Colombian market do not consider that the population with limited financial education prefers broad coverage, explanatory documents and simple procedures, as demonstrated in the demand section. The lack of research to design insurance products is evident when taking into count the findings of the survey SFC insurance companies (81% of Colombian insurers participated) whose purpose was to make a diagnosis of the evolution and current situation of financial inclusion through the insurance industry. This survey indicated that "few institutions have the breakdown by salary range and know the geographic area (rural / urban) belonging to policyholders" (SFC 2013).

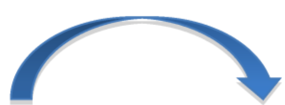
6. *The contractual applicable documents and processes are not as simple as might be expected of affordable products for households with little knowledge of formal financial services.* Both policies, as individual certificates in cases of group policies include conditions and complex legal vocabulary. The policies are largely of large cases (more than ten pages often) and too technical content to allow proper communication of the conditions and processes. So they are unsuitable for the target population of micro insurance.

3.2.5 The state of micro insurance market development in Colombia today

Colombian micro insurance market is characterized by an offer by the formal insurance industry, which uses alternative and traditional channels to distribute their products, but using reduced way transactional platforms. With regard to the products, they are mostly undiversified and don't always report real value to end users thereof. From this perspective, the market for micro insurance in Colombia is a "hybrid" [54], stage of "growth" process "diversification" market. The latter taking into account the classification of the "Micro insurance Innovation Facility" ILO markets "infant in" growth ", diversified and" competitive "[55] (Figure 15).

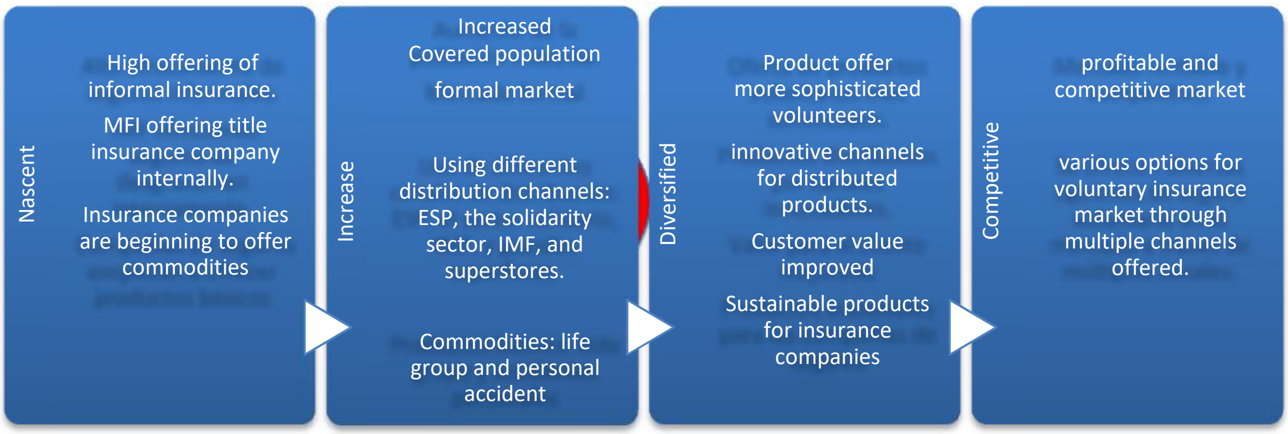
Figure 15 State of micro insurance market development in Colombia

Source: Made by myself



[54] Understanding why a market with characteristics of the models "based on credit" and "massive", in which the middle class is robust and growing (McCord, Jaleran and Ingram, The Landscape of Micro insurance in Latin America and the Caribbean 2013).

[55] Emerging markets are characterized by a high offer of informal insurance markets, IMF offer self-insurance, there is little interest
local insurers. Growth markets are those where the population covered by generally mandatory commodities is increasing and where they begin to use other distribution channels. Diversified markets are the markets where the offer of voluntary products, value for the consumer, which are distributed through innovative channels. Finally, competitive markets are profitable markets where competition among multiple providers value products for the consumer prevails.



4 The demand for micro insurance in Colombia

This section explores the characteristics, preferences and perceptions of the target population in Colombia for micro insurance. Several sources of information have been used. First, the information obtained through focus groups (GFs) carried out for the realization of this diagnosis [56]. The GFs have allowed not only to have a better understanding of the potential of micro insurance demand but also socio-economic characteristics of the population to which micro insurance products should be directed. In addition, the information collected is a key to have a more complete view of the risks to which these groups face and the most common mechanisms that face them and their probability of occurrence. Finally, GFs results give information on the perception that lower income groups of the Colombian population have on particular insurance products and the insurance industry in general. It is noteworthy that the study sample was very small; only 79 people participated in the GF, and particularly was aimed at social levels 1 and 2 of the population, even though the level 3 is also an essential segment of the target population micro insurance in Colombia. From this perspective it was essential for the consultant team to complement this information with visits to markets and other data available in the country: (i) a field visit by the consultant team to Paloquemao Market and Calima Mall[57] (ii) the data from the study by

[56] The company National Consulting Center (CNC) was responsible for the GFs, after a public bidding process. The GFs were conducted during the months of November and December 2013, subsequent to the site visit team fashion consultant. In total, 79 people participated in these GFs. Annex A a fact sheet with information on work done by CNC as well as the main features of those attending the focus groups is presented.

[57] Paloquemao Square is one of the main shopping areas of Bogota where is located the Market of Paloquemao, one of the traditional centers selling fruit and vegetables to retailers, beside which recently built a modern shopping-center: the Calima Mall. Paloquemao Square and its adjacent areas are therefore an ideal place for an informal sampling Micro insurance because in a relatively small physical space can be found representatives of different social strata Colombian place. Paloquemao Market has about 750 dealers who mostly fit within strata 2 and 3 population - levels low and medium-low. The Calima Mall, on the contrary, it is frequented by people belonging to strata 4 and 5

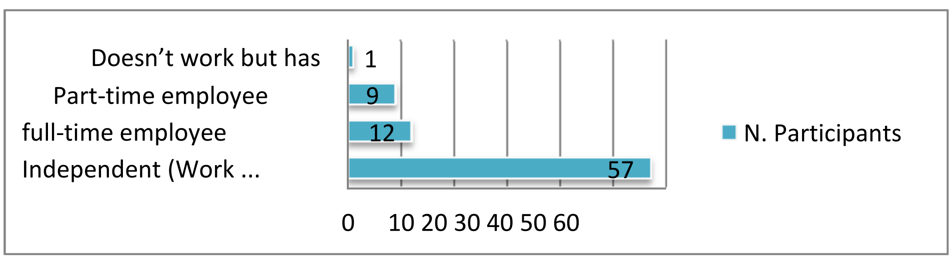
Yankelosvich Acevedo and Association (Yanhaas) 2008; (Iii) the Longitudinal Survey of Colombia University of the Andes 2011 (ELCA) [58]; and (iv) the report with the results of the Survey of Financial Inclusion developed by the SFC and BDO in 2013.

4.1 Main features of those attending the focus groups

Living conditions of the participants. The 79 participants of the GFs (39 women and 40 men) had an average age of 40.6 years. Most assistants to the GFs don't have their own housing, and those who own have mainly obtained it through a mortgage. Participants of the GFs consider paying the monthly mortgage is not an additional expense because they see it as a payment equivalent to a lease. The main feature of this social group is high job insecurity, with 72% of participants in the GFs working in an independently[59] and informal way (see Figure 16). 68% of participants belong to social level 2 (54 people) and 32% belong to social level 1 (25 people)[60]. The level of monthly income of more than half of the participants is below the COP 600,000 (USD 295).

Figure 16 Type of work of the participants in the GFs

Source: Own calculations based on data collected by the CNC



The level of education of participants is below the national average[61]: Only 23% of participants in the GFs completed primary school. Most people who participated in the GFs (72%) are beneficiaries of social programs SISBEN.

Economic vulnerability and common expenses. According to GF, in most cases the proceeds do not cover basic family expenses, which range from COP 700,000 (USD 344) and COP 1 million (USD493). Among the most frequently mentioned usual monthly expenses in addition to those for the maintenance of the family and other current expenditure is the payment of

(Medium and medium-high). In addition, around the square are numerous stalls of informal traders with a profile belonging to strata 1 and 2 (low-low and low).

[58] The aim of the ECLA is to improve understanding of the economic and social changes taking place in Colombia.

[59] That is, on their own through their own business.

[60] Although the sample of focus groups was mostly people from stratum 1 working independently, it is noteworthy that the international trend is that the layers 1 to 3 are also employed in the formal sector, which however are poorly income (workers for example), so that this segment is also vulnerable and confronts financial difficulties. The target population Micro insurance
also it includes those formal low-income employees.

[61] The national average is 37.2%.

debt, especially housing loans, and other loans contracted with pawnshops and moneylenders.

Unforeseen or unexpected expenses. They are mainly related to health issues and medications. Other incidentals include accidents, living arrangements, social events and family. Table 13 shows the main types of unexpected expenses that low-income groups who participated in the GFs have to face, and the approximate cost of them.

Table 13 Cost of unexpected expenses

Source: Own calculations based on data collected by the CNC

Expense type	Amount required to face it (COP)
Death of a family member	Between 4 and 5 million (USD1,968 and USD2,460)
Disease	private appointments: between 100,000 and 200,000 (USD49-USD98) drugs high cost: 200,000 - 500,000 (USD98 - USD246) Chronic illnesses / disabilities: 500,000 - 1million (US246 - USD492) Surgery: between 4 and 5 million (USD1,968 and USD2,460)
Accident	Between 1 and 4 million (USD492 - USD1,968)

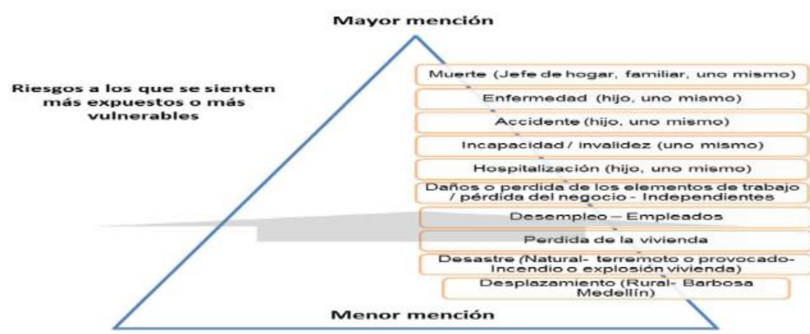
4.2 Perception and risk exposure for the target population

Risks that most concern the participants of the GFs are (i) death, (ii) disease, and (iii) accidents, disability and hospitalization. In case of death (perceived as the most expensive risk), the financial adjustment, that this entails, has two key implications. First, the cost associated with death is usually high as families often borrow to cope, which generates long-term negative consequences for the family's economy. Second, the loss of this source of income that represents death adds, and should be covered by another family member. This feeling of uncertainty and risk of debt can be noticed from the comments of participants in the GFs: "You do not know when will happen" "... because being born or dying today is a problem, being born is worth money but dying is worth money"(CNC, 2014). Another latent fear for the people who participated in the GFs is a disease, because it can cause changes in the dynamics of work and therefore affect household income. This has a particular impact when a person suffering the disease is the main source of household income, "When you’re sick you can’t work, you cannot do anything", "When you’re healthy you go to work, but when you’re sick… it’s difficult." "An accident can leave one disabled and disability may be for a day or for years or for life, it’s worrying."

Figure 17 illustrates, from highest to lowest degree, the various risks mentioned by participants GFs. As can be seen, other risks such as floods, damage to property and theft, are less important than the amount paid to risk of death, illness or accident.

Figure 17 Levels of exposure

Source: Own calculations based on data collected by the CNC



As you can see, this ranking indicates that the low-income population gives greater importance to situations of risk and that generate an economic impact involving drastic changes in the family, work and emotionally. About the risks at the base of the pyramid – those that are not given much importance-is a phrase referred for a GF that perfectly illustrates the philosophy that the population can potentially access their situations facing micro insurance vulnerability and insecurity: "While there is life and health ... you do something".

According to ECLA it is perceived that the risks to which it is most exposed are (i) sickness, (ii) accident, (iii) violence, and (iv) car accident. According to ECLA, 34.2% of respondents believe they are more exposed to the risks of sickness and accident, violence (32.9%) and motor vehicle accidents (30.8%). According to Table 15, the risk of flooding has been mentioned only by 6.8% of respondents. Table 14 presents a comparison between the results found in the three studies regarding the risks with the greatest impact on the household economy.

Table 14 Risks with greater economic impact

Source: Prepared based on the results of studies

Risk	Yanhaas (2008)	Universidad de los Andes (2012)	focus groups (2013)
#1	Disease	Illness or accident	Death
#2	Unemployment	Violence	Disease
#3	Home theft	Car accident	Accident, disability and hospitalization

Table 15 Risks that low-income people are exposed

Source: Los Andes University, 2011

Risk	Percentag
Illness or accident	34.2%
Violence	32.9%
Car Accident	30.8%
work accident	14.1%
Earthquakes	7.8%
Floods	6.8%
Fires	6.1%
Other natural disasters	5.1%
Doesn't know	5.0%
Landslides Death	2.7%
family	2%
Others	8.3%

The occurrence of accidents nationwide is high. According to the ELCA, 32.5% of the 5,448 households surveyed in urban areas and 47.1% of the 4,720 households surveyed in rural areas report having suffered some kind of loss in the last year[62] 33.3 % of respondents reported having suffered some loss in the last 6 months. According to the survey 23% of households in the sample (comprising social levels 1 to 4) reported loss of land, abandonment of residence, theft of property or animals, among others, and that 18% of rural households reported natural disasters in their communities, particularly in the

[62] Claims on households are grouped with economic criteria in nine categories. The first five categories are accidents that questioned both the urban and in rural areas, and relate to events that destabilized the home, namely health claims, household, employment, assets and violence. The last four types of incidents only wonder in the rural survey and relate to events that destabilized the community: armed conflict, common crime, natural disasters and bankruptcy / closure of companies.

Cundiboyacense and middle Atlantic region. Also on the issue of land it was shown that a high percentage of households have ignored informal property rights[63] on their land (Universidad de los Andes 2011).

The most common losses in urban areas are health and unemployment. In rural areas there are home asset and health losses. Losses that have greater impact in rural areas are natural disasters. According to ELCA, urban areas claim that what most affected the participants was related to (i) health, (ii) unemployment and (iii) other relative's shocks (Figure 18). In rural areas, the events that affected low-income households were problems with the health of a family member also recorded a high percentage (17%), but the most common events were related to the loss of home assets [64] (See Figure 18). Events with impact to the community at large were those considered as natural disasters and criminal activities (see Figure 19). According to ECLA, when asked for incurred losses in the last 6 months, respondents mentioned diseases (16.6%), flooding (3.7%) and motor vehicle accidents (2.4%) as the three most frequent categories.

Figure 18 Major accidents in urban and rural households in the last year

Source: (Universidad de los Andes 2011).

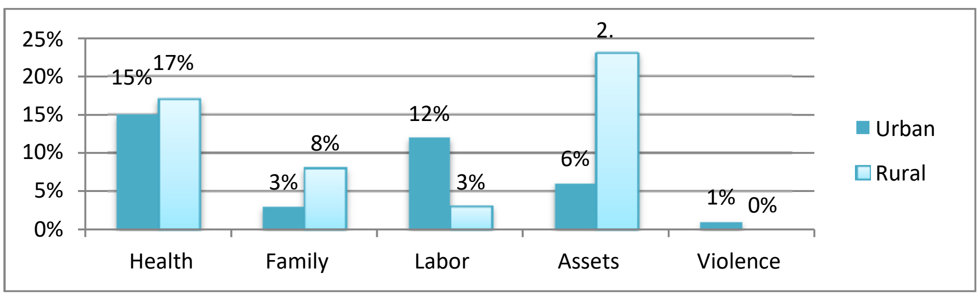
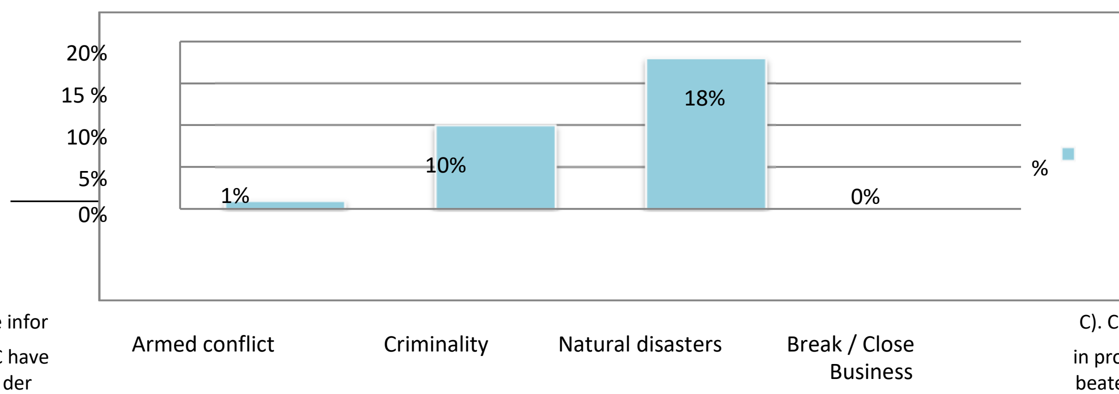


Figure 19 Major losses in rural communities

Source: (Universidad de los Andes 2011).



[63]the infor C). Cadastral tab

IGAC have in property registration

reco der beaten in Colombia.

Without

mality of the property is calculated based on the cadastral information Codazzi (IGA ge information on the number of

real estate for each of the properties tuition, that the premises s informal echos property was assumed. Informality However, statistical evidence has been scarce. The ELCA designed a new module designed to measure informality in rural property, understand some of the causes and identify their economic impacts. The module also includes information about leasing and contracts that govern it.

rights property has long been a subject of

[64] "In rural areas, claims assets concentrated in the categories of" Pest or crop losses ", with 57.6% of total claims of this type, and "loss or death of animals", with 29.2%, considered as productive household assets. For urban areas, the loss of assets most often was "theft, fire or destruction of household" with 39.2%, followed by the "Loss or cut remittances", with 29.7%.

There is divergence between the losses incurred by social class, but in all cases the most common is unemployment. The second most frequent claim in social class 1 is disease and 2 and 3 was theft. According to the Yanhaas survey, there is a discrepancy between claims occurred in homes when they are analyzed by socioeconomic class. For all social class analyzed (1, 2 and 3), the most frequent incident was unemployment (45%, 27.1% and 20.8% respectively). But the second most common claim in social class 1 was disease (31.7%) and for social class 2 and 3 was theft (14.2% and 16.6% respectively) (see Table 16). According to the ELCA more than a third of the sample in social class 1 and 2 experienced some loss in the last twelve months, compared to 29.6% in social class 3 and 24.6% in social class 4. In all social classes the main destabilizing event has to do with the health of household members. Job loss is the second in incidence for social levels 1, 2 and 3,

Table 16 Disaster occurrence by social class

Source: Yanhaas 2008

shocks	level 1	level 2	level 3
Unemployment	45.0%	27.1%	20.8%
Disease	31.7%	9.5%	15.0%
Death	28.0%	10.9%	11.7%
Theft	20.7%	14.2%	16.6%
Traffic accidents	14.5%	1.0%	9.4%
Work accidents	11.8%	7.0%	7.7%

4.3 Risk management mechanisms

The elements that determine the selection of a risk management mechanism are (i) the resources available to them; (Ii) the environment, (iii) household preferences; and (iv) the manner in which decisions are taken on the household. As revealed in the previous sections, low-income people have the perception that they are exposed to a lot of potential accidents, unforeseen adverse events. Possible strategies of a household when confronted with different risks and accidents are varied in character; in some cases they seek to reduce, mitigate or confront the risk. The range of responses to these situations is also very wide. However, one of the main determinants of a household or a micro or small business when determining the reaction to a loss or risk are the resources that it has. Other elements that determine the response before and casualty risks are the environment where people live, the preferences of household members and how decisions at home are taken (Universidad de los Andes 2011). These reactions and strategies also are dynamic and evolve over time, so that the behavior of a household varies between before and after the collision, and also between the immediate post-shock time and the medium term.

They most common mitigation and risk reduction strategies. In this case, we are referring to the former strategies such as the acquisition of an insurance policy (formal or informal), diversification of economic activities, implementing savings plans and participation in credit associations and savings - Rotating Savings and Credit Association (ROSCAS) [65]- among others. The risk mitigation strategies ex post usually occur after an event, and usually involve changes in the dynamics of home such as saving on food, find a second job or not send children to school. However, alternative reaction of a household are limited by their capacity and their environment, the reaction to the event might be the one that the household would have preferred, but it’s the one within their reach.

The most common way to confront claims is loans from family. Noting Table 17 it can be seen how family loans, ie, a source of informal finance, are the main way that people belonging to the lower social classes of population face unforeseen events.

Table 17 Main solutions to address unforeseen

Source: Prepared based on the results of studies

Ranking	Yanhaas (2008)	Universidad de los Andes (2012)	focus groups (2013)
#1	Loans	Household members who did not work are out to find work or the working ones increased their hours	Family loans
#2	Savings	Migration (living with family or move out of the country)	Drop by drop (lender)
#3	Consumption Reduction	Savings	Friend loans

On the other hand, a high percentage of households reported not having taken any action prior to the occurrence of health-related claims: from 27.3% in the Pacific region and 38.5% in Bogotá to urban areas, and from 22% in the Cundiboyacense region and 34.3% in the Middle Atlantic region, in the rural area. The most common responses in both areas involve the use of assets and insurance mechanisms or informal debt[66]. Within the use of assets, 90% of respondents correspond to expending of household savings to confront the disaster, both in urban and rural areas. Another item of particular interest is debt or informal assurance. The main reason to borrow from friends or family is to meet immediate consumption decisions (Universidad de los Andes 2011). The use of savings and lenders (drop by drop) were also

[65] The THREADS (Rotating Savings and Credit Associations) Association of Savings and Credit Revolving or AACR are formed by a group of individuals who agree to meet during a defined period in order to save and borrow together. They are usually informal associations of participants who make regular contributions to a common fund which is given wholly or in part to each contributor in turn.

[66] The informal assurance is to diversify goods and production (in the case of rural areas) or create networks of cooperation in order to solve the problems facing households. In addition emphasis on the need for people it is to create an informal market where there are interpersonal voluntary transfers of goods and services.

solutions commonly mentioned by both the target population and Yanhaas GFs survey. It is important to point out that funeral insurance were mentioned spontaneously as a strategy of risk mitigation by some of the participants of the GFs.

5.3.1. Access to formal financial services

5.3.1.1. Banking services including savings banks

> *"In banks, you can't save"; "Banks are not suitable because they charge to keep your money and you're always the loser."*(Participant of the GFs)

Access to financial services for the population segments analyzed (social levels 1 and 2) is limited, and there are very few participants in the GFs who have some kind of relationship with banks, or access to different services. In this regard, it is important to say that there is a deeply rooted distrust and resistance in the minds of those consulted on particular banks and financial institutions in general. So, there is an impression that the financial system does not contribute to a savings culture with the low-income population, as the costs associated with a bank account cause disinterest and despair. It is equally likely that this is due to a lack of products designed specifically for these segments by financial institutions, such as savings accounts with simplified procedure or electronic savings accounts, that precisely seek to minimize the costs associated to these segments.

> *"With banks it is difficult, ask for papers and take time to disburse the money" "A bank lends you money but if they see that you have money, if not, no, they study the credit worthiness and they do not understand that if one will ask for money is because they do not have*"(Participant of the GFs).

The use of savings is deficient in the target population. With regard to financial services, it showed that only 17% of respondents in urban households in social classes 1 to 4 report saving normally and that 70% of households in social class 1 save cash as they finds it difficult to access the banking system (Universidad de los Andes 2011).

Moreover, in the strict sense of savings, only a minority of the participants of the GFs has this habit and those who do, don't spend more than 5% of their income for this item (which would indicate, contrasting the results of the GF with as indicated in the ELCA study, have an monthly average savings of 15 USD). This, however, is not for lack of interest in saving, but unable to do so due to the low level of income than most families have. In contrast, participants in the GFs say that saving is very important and in most cases they would save if they could.

> *"The concept of saving I think is different, because another thing is that I can save for services, unexpected expenses, that is not saving, that is save to meet the needs, saving as such is something extra, it's money that I don't need and will not use. "* (Participant of the GFs)

The main objectives of the savings for these groups would be: (i) improving the welfare and quality of life of your household; (Ii) provide for future projects, goals and plans of your household; (Iii) an option to deal with eventualities or unforeseen; and (iv) investing in your business.

The small percentage of people who participated in the GFs with access to banking services mentioned that the use thereof is not only expensive, but also extremely complicated due to the high degree of requirements and documentation that banks apply (different certificates, identification documents, etc.), which in their opinion only serve to delay the banking proceedings[67].

4.3.1.2 Formal insurance services

Access and acquisition of formal insurance by the target population are reduced. ECLA results indicate that 14% of urban households have some type of insurance and the layers 2, 3 and 4 predominate life insurance (Universidad de los Andes 2011).

Insurance or funeral service, which is in practice the same for participants, is the preferred insurance. Despite the difficulties to save expressed by participants, since they have no resources to provide, it is noteworthy that participants do not consider the resources available to acquire funeral insurance as a cost as they perceive its value. The money they pay for it is not high compared to the benefit they receive and feelings generated by it: peace and security. The relevance of acquiring a justification for funeral insurance on the consulted is based primarily on their knowledge of the associated costs to the death of a person, situation that they are aware of the need to anticipate and plan for this expense. Thus, approximately 46 people from a total of 79 participants from GF (about 60%), reported having funeral insurance - almost twice the people in urban areas than in the rural-. It is noteworthy that during the visit to Paloquemao market, those interviewed mentioned the "insurance" concept even though it actually had a "funeral service" offered by specialized providers entities, so that in such cases the perception is indifferent to its type. In Bogota respondents pay for funeral insurance or funeral assistance to public service companies, they make the monthly payment through the public service bill and the amount that is payed vary between COP5.000 (USD2.50) and 25,000 (USD12.30) per month. The amount also varies according to the number of beneficiaries. In the other surveyed cities and in rural areas the respondents pay for this service directly to funeral services or cooperatives funeral rites in their city or municipality. The monthly cost is between COP4.500 (USD2.21) and 20,000 (USD9.80). As happens in Bogota, the amount varies according to the number of beneficiaries. Those who have used the funeral or burial insurance indicate that it covers the following: coffin, casket, vault, batch or cremation, burial ossuary, hearse, transport assistants, Mortuary, mass, and wreath.

In isolated cases it is mentioned having life insurance and other products. Especially with Bancolombia or Colpatria, the latter for which they pay between COP 8,000 (USD 4) and COP40.000 (USD 20) per month. According to data from FASECOLDA (to October 2013) the average premium of funeral micro insurance is 8,177 COP (USD 4), which represents less than 1.5% of revenue for participants in the GF. One participant mentioned the GFs have insurance against theft of his motorcycle. ECLA found that 61.2% of respondents reported having a health insurance[68], 20.8% life insurance, and funeral insurance [69] 18.5% as indicated by the

[67] It is noteworthy that only in the GFs that took place in Bogota were participants with access to formal banking services.

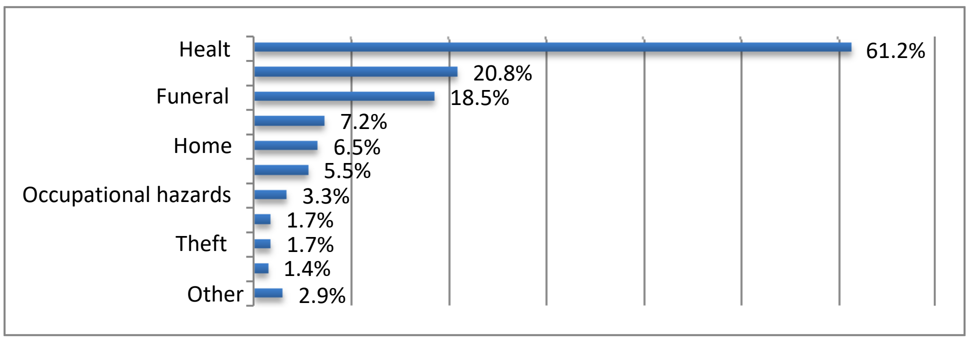
[68] Of those who declared to have health insurance, 87.6% are POS, 5.1% or complementary prepaid health plan, health insurance 4.9%, and 3.8% specified health.

[69] Of those who have declared funeral insurance, 33.6% are not specific funeral, 33.6% offered by an insurance company, and 32.7% funeral offered by funeral home.

Figure 20. This figure is in apparent contradiction with the results of the GFs. However, it is understood that if one considers that the population of the GF is at social levels 1 and 2, where the presence of traditional insurance is much lower. In the case of participants who have their own home mortgage credit it is important to note that they mention the importance of home insurance through to continue paying the debt in case a problem arises that involves loss of income. Participants did not mention the possibility of having insurance to cover the loss of income without being associated with other coverage, indicating a weakness of information, as in some cases social housing insurance offer unemployment insurance.

Figure 20 Owned insurance

Source: (Universidad de los Andes 2011)



Insurance that matter most to the low-income population is living and home, followed by personal accident. Figure 21 and Table 18 show that there is some discrepancy between the insurance products of interest to low-income people and those they currently have. These data are consistent with those obtained during the GFs in which it is stated that insurance that interest the low-income target population (levels 1 and 2) are the funeral insurance and life insurance. When contrasting this interest with the current offer, we note that there is some correlation since most marketed insurance for low-income population according to the survey Financial Inclusion (2012), data from the SFC and FASECOLDA are life insurance group (2.7 million policyholders) and personal accident (1.07 million insured) to December 2013, both categories representing about 94% of the market (SFC 2013) (FASECOLDA 2013). Similarly, the funeral insurance (338,491 insured) is listed in third place, followed far behind by the individual life insurance (14%). However, a lack of correlation between supply and demand for home insurance products (see Figure 24) is evident. Furthermore, it should also be noted that the results of the surveys and the information gathered during the GFs agree on the need to improve knowledge of this population in relation to other types of insurance, such as natural disasters or flood. In the ECLA, 7.8% of respondents mentioned earthquake as a risk to their home, 6.8% mentioned floods and landslides 2.7%. According to FASECOLDA statistics, there are almost no insurance for low-income populations covering these risks, so that this population depends on government markets aid in case of natural disasters.

Figure 21 Comparison between insurance and holding captive demand

Source: (Universidad de los Andes 2011).

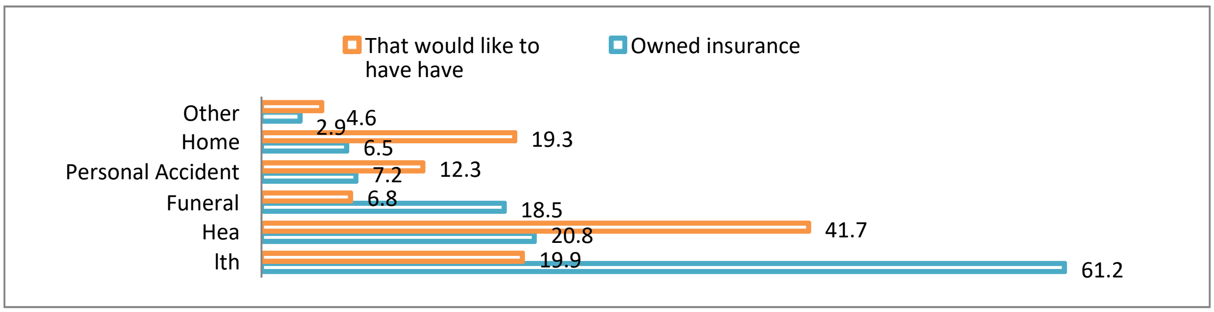


Table 18 Relation between products and market demand

Source: (Universidad de los Andes 2011).

Ranking	Main products on the market	Insurance has	Insurance demand
#1	life Group	Health	Lifetime
#2	Personal accidents	Lifetime	Health
#3	Funeral	Funeral	Home

4.3.2 Access to informal financial services

One of the ways that participants of the GFs have to deal with the various risks they face in their daily lives is access to some kind of informal financial service. These can be divided into two broad categories: the ex before solutions; i.e., savings and therefore having a role of anticipation and risk prevention, and solutions or ex post reaction to risk or materialized disaster. The first ones include piggy banks, chains and “natilleras”, while in the second group we are applying for loans to family members, drop by drop, and commitment of goods.

4.3.2.1 The piggybank or "Marranito"

It is the simplest and easiest saving way and the vast majority of respondents mentioned it as the main mechanism to save. The contribution to the piggy bank depends on income and they can do it every day. The use of savings is made for unforeseen events that need limited amounts (such as minor illnesses). One limitation mentioned by the participants is that it is difficult to save large amounts with this method, since the money is in the house (easily accessible) and is used, in most cases, for different emergency payments.

4.3.2.2 Chain

> *"You know you have to carry and deliver the money and that you will get it one day" "I save in the chain, weekly and we have COP 4,500,000 (USD 2,224)")*

It is an informal savings alternative widely used among family, friends and neighbors and is considered a common practice at these socioeconomic levels [70]. The chain thrives on fixed monthly contributions during a period of months, which shall be equal to the number of people who form the chain - for example, ten people who bring COP 100,000 (USD 49) per month for 10 months. The money is distributed on a regular basis, so each participant will receive COP 1,000,000 (USD 492) when the turn will come. The major limitation thereof, is not able to have the money when needed. In addition to the credit risk for those who receive the money at the end of the chain.

4.3.2.3 The loan from family and friends

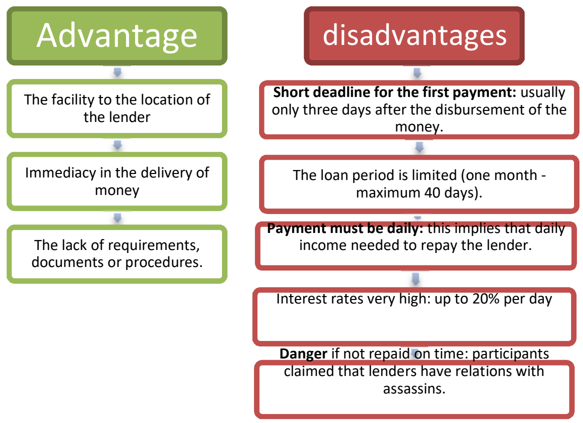
Family (understood this concept in its broadest sense) and close friends represent the first level to go when money is needed urgently. The amounts received always depend on both the need to be met as the solvency of the family member or friend who will lend the money. The dense social fabric of Colombian society, especially in lower social class makes that solution possible by the trust and closeness of those members of the family or community. The advantage of these loans from family and friends is non-interest or these are very small. In addition, facilities are given in the case of late payment. However, there is a risk that non-payment contributes to damage relations with those who have borrowed money. Additionally, another problem is that family members or friends who are asked for money will not always have enough money to lend.

4.3.2.4 The lender or the "drip by drip"

Informal lenders make loans that are popularly known as "drip by drip" -in the urban-area and "pay-day" -in rural areas. They lend money easily, require no collateral, and charge interest of up to 20% daily. The payment of the debt should be daily. This solution is widely known and used within these segments because they do not always have access to emergency loans by banks or other more affordable solutions within the next environment. The existence of these lenders is more common in rural areas where the population centers are smaller and therefore the knowledge that the lender has of its potential clients (a key to success in collecting the loan element) is much higher (See Figure 22,

[70] This form of savings based on trust in a close circle of friends or relatives is common in other Latin American countries (for example, in Bolivia these systems are called "pasanakus").

Figure 22 Advantages and disadvantages of the lender or the "drip by drp"
Source: Made by myself



4.3.2.5 The effort

It is a system in which the applicant receives immediately a sum of cash in exchange for leaving on deposit as collateral, a pledge of property. The main advantage is that you get the money immediately; the disadvantage is that it is not easy to recover the article pawned and in most cases, it is lost.

4.3.2.6 The "natilleras"

> *"I am in the natillera: my girl fell ill and I had to go get a loan" "If I have a need they'll loan the money but you have to pay on time, money is sacred because now in December is when they have to distribute" (Participant of the GFs).*

The natilleras are similar mechanisms to threads and are typical in rural areas of Antioquia, where there is a familiarity, fraternity and solidarity, promoting financial mechanism culture. This saving system brings together some 20-30 people and usually begins in January. The group establishes a share and frequency of savings. Regular meetings, include activities aimed at increasing the funds. Participants can apply for loans during the year and profit at the end, usually in December. The natilleras encourage savings considering the holidays and year-end expenses.

4.4 Factors affecting the demand for insurance and micro insurance

4.4.1 Lack of knowledge and experience in the use of insurance

There is a clear confusion between the concept of insurance and social security, particularly in rural areas. One of the main results obtained with the GFs is that its participants seem to know and appreciate the concept and function of insurance. However, this perception is derived from social security, as most of them do not have much experience with insurance. Thus, an important element is the confusion between insurance and social protection. This is particularly evident in rural areas where insurance is mentioned as Social Security, pension and severance pay and sometimes even the Administrator of Occupational Risks (ARL).

Mandatory Traffic Accident Insurance (SOAT) is widely mentioned. This is probably due to its binding nature.

The lack of insurance benefits generates misconceptions about their expectations. Because of the lack of knowledge about what insurances are or aren't, there are many erroneous expectations about the benefits of it. The mistake is based on the fact that insurance is seen as synonymous with savings, so it is considered that the money paid will be refunded to confront an event or emergency. In other words, it is considered that will dispose of it whenever they feel necessary, regardless of the loss the insurance is associated to.

The association and recognition of insurance brands is determined more by advertising and "word of mouth" that an experience of personal service. Insurance companies they know and most frequently mentioned were: Colpatria, Libertad and Suramericana. Proof that this brand recognition is superficial and that in the companies indicated is Bancolombia, which is not an insurance company, but merely limited to market via bancaseguros, insurance products.

Those who are able to identify some insurance companies refer to that the offering insurance in Colombia is very wide and that the sector is booming. This is related to the fact that in different media there is a very strong advertising sector. However, this advertising is not enough to sensitize the public about the need and importance of having some insurance. In addition, the advertising offer is so wide that in many cases it creates confusion because recipients don't have the criteria to select the best option. These data come to suggest that the lack of financial education remains one of the most important obstacles for the expansion of insurance and micro insurance to social levels 1, 2 and 3, despite efforts by FASECOLDA and the insurance market in Colombia with financial education strategy "Live Safe". There is information, but it is not thought out or designed for these social segments, making them unable to evaluate the pertinence of the offered services, nor differentiate which can be better adjusted to their needs.

4.4.2 Lack of trust in insurance companies

"Health insurance, and that ... I've seen cases where elders go to seek what they have paid all their lives and have died, they have not given them anything" "They have made a reputation for not paying" "A lady was paying insurance, she died in those days, and when her husband went to claim the insurance, they said no, that she had not put him as beneficiary ... she was paying, but failed ... they gave him nothing "
(Participants of the GFs).

One of the recurring issues during the celebration of the GFs was the distrust that participants feel towards banks, [71] *which is much greater than to insurance companies*. Although access to financial services

[71] Banks that were mentioned during the GFs, i.e. those qu and have a relationship, are: National Savings Fund, Banco Caja Social, Bancolombia, Pichincha, Colpatria.

for this population (social class 1 and 2) is limited and very few have relationship with banks, MFIs and its various services, there is a deeply rooted distrust and resistance in the minds of those consulted on the banks. This may generate a distorting effect that extends to insurance companies. In addition, the bad experiences of others affect the credibility of the products offered when purchasing insurance. This is observed in a highly uninformed population that doesn't know the products features, offer value, conditions, benefits, clauses, etc. This situation reinforces feelings of distrust.

"He who has insurance is because he has money" (Participant of the GFs).

The only exception to this trend of distrust is the companies that offer insurance or funeral assistance. There is a positive assessment of the known companies which have the funeral aid, whether it is insurance companies or bodies providing such services. For those who do not have such funeral aid, respondents perceived homogeneity and lack of differentiation in supply and service, and are not able to identify distinctive traits between them or their products.

4.4.3 Problems with cost and accessibility

A major inhibitor to purchase insurance is the cost of it: the level of current income and expenses of the groups belonging to social classes 1 and 2 does not facilitate its acquisition. This factor is key to conclude that perhaps the target population of micro insurance is social classes 2 and 3, as they have more purchasing power than the population from social class 1.

"I was offered by the company, had agreements plying a discount" (Participant of the GFs).

Accessibility to insurance is also key. According to the participants of the GF, one of the best ways to improve processes is through the use of consultants, who make a personal visit to the home of the prospective buyer or perform a phone call. The transfer of the cost of these consultants to the product was not mentioned by participants. Given the level of ignorance of the subject and the need to understand all the issues related to the purchase of insurance, the presence of an adviser is to ensure a better level of understanding. Participants in the GFs suggest that they require direct contact with advisers to help build trust and closeness. Preferences related to business strategy therefore suggest personal channels and mechanisms. These include personal home visit, phone call, workshops, awareness sessions and documentation, personalized advice and loudspeakers. For formal employees, they receive the information through companies with which some insurers have special agreements.

The offer of insurance perceived as distant and exclusive. Participants view themselves as an underserved population. This is especially clear to those engaged in informal economic activities - most respondents. This would suggest that the industry has not developed products and sales mechanisms tailored to the needs and possibilities of this type population.

4.4.4 Issues related to product design

"I have no such priority, I have no car, housing, So, I do not need it" (Participant of the GFs).

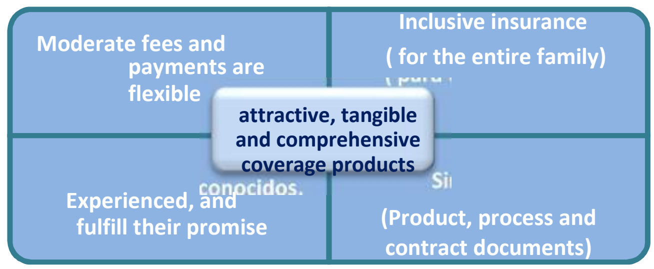
Insurance that interest to the target population according to the results of the GFs is funeral insurance and life insurance.

However, most of the participants do not understand the difference between the two, a fact which indicates difficulties in understanding the conditions of each product and their respective benefits. Regarding the other insurance product offerings, it is barely noticeable since they do not seem adequate to meet their needs against the risks they face.

Following the information collected during the GFs, Figure 23 illustrates the main elements that must contain a micro insurance product to be considered attractive by the lower segments of the population.

Figure 23 Items that must contain a Micro insurance to be attractive

Source: Own calculations based on data collected by the CNC



It is essential to note that these characteristics have been identified as essential by the participants of the GF, yet despite their lack of experience in insurance. However, even intuitively, they have very clear ideas about what a micro insurance product should and should not provide, both having to do with product design, with the coverage made, and the company selling the service. Here, the main suggestion relates to the concepts of relevance and Tangibility products. Put another way, it is to "make it attractive for people to see how important it is to have insurance", as was stated by a participant in the GF.

GF requirements for products to be tangible and attractive. For products to be tangible and attractive, you need to:

a. Have a wider coverage, ie covering several risks ("bundled products"): "Insurers should have something against all accidents, sickness, if the house fell, everything goes in one package."
b. Have moderate quotas and the possibility of flexible payment (monthly, quarterly or semi-annual). According to participants in the GF, it indicated that the average range mentioned by customers of the ability to pay was between 10,000 and COP 30,000 pesos (USD5 - USD15). In some isolated cases it was stated that the ability to pay could reach a maximum COP 40,000 (USD20). However, it is noted that the GF report is not sufficiently representative, as noted previously, and in many cases when GF are made, participants reported figures that don't necessarily represent their ability to pay, but are mentioned for display on similar to the other members from embarrassment of their financial situation and prefer not correct or mention lower figures.
c. Offer the possibility to include the whole family, regardless of age.
d. Offer simplicity in the product and processes. "Process, simple and affordable." Unitholders mentioned that companies "put clauses usually in small print, and one never reads. And they never cover 100%, as one tends to think "

e. Keep the promise (“deliver the promise"). Although much of the GFs participants have no experience with formal insurance, the bad experiences of others affect the credibility of the benefits to purchase insurance. Participants mentioned that companies should "be more honest when selling" and "fulfill what they offer because sometimes offer a plan when an emergency comes up they say you haven’t paid for it."
f. It is offered by recognized and experienced insurers. Transparency, honesty, seriousness, responsibility, and experience are desirable values in an insurance company.

5 Public policies, supervision and regulation

5.1 Public policies

In this section, a cross-sectional analysis of some public policies that favor, promote or hinder directly or indirectly the development of micro insurance market in Colombia will be presented.
The Colombian government is committed to promoting access to insurance as part of its financial inclusion strategy. There is a clear emphasis on promoting access to insurance against catastrophic events. This commitment has been evident not only through PPPs that have stimulated market development of micro insurance in Colombia, but also through the recognition of access to insurance as essential to reduce the vulnerability and poverty element in the context financial inclusion. In this regard, the National Development Plan 2010-2014[72] recognizes as a priority to "guarantee coverage of the financial system." This priority has been evident through the recent adoption of the ENIF by the GC (see Box 4); 2009[73] financial reform; the creation of the BDO; creating reports "Financial Inclusion by the BDO and the SFC and the insertion of Bill Financial Inclusion by the MinHacienda and the Ministry of Information Technology and Communications (MinTIC), the past month of April

[72] The National Development Plan 2010-2014 was approved by the 1450 Act of 2010. The document "Bases of the National Development Plan 2010-2014" is an integral part of the law.
[73] Among the objectives of financial reform that took place in 2009 included eliminating barriers to deepen financial markets and effectively protect the financial consumer. Bill 282 of 2008 House.

Box 4 The five axes of the ENIF

Source: SFC

access to insurance initiative
Multilateral Investment Fund Member of the IDB Group
IDB

Shafts of ENIF

The ENIF was presented in March 2014. The priorities set out in the ENIF are articulated around five axes, and in all cases the importance of adopting responsible practices by operators highlights:

1. Promote the use of financial services to households, through mobile banking, product design tailored to the needs and promotion of new points of use in commercial establishments.
2. Access to and use of financial services for the rural sector by reviewing the current subsidy scheme in financing the agricultural sector.
3. Access to credit for SMEs through the Registry of Security and review the system of factoring operations
4. Financial education strategy.
5. Bring transactional services to population not included, with the creation of a new simplified financial license (companies specializing in payments, savings and deposits).

Regarding the importance of insurance in the framework of financial inclusion, the National Development Plan 2010-2014 included a particular section on the importance of them, particularly those against catastrophic events and micro insurance. In this context, the Colombian government in the National Development Plan 2010-2014 set out to identify:

> "Necessary measures to promote the design of new insurance products aimed at reducing the vulnerability of the population to all kinds of risks, particularly those associated with climate change. At the same time strategies will be implemented, as the financial consumer education, to promote the culture of insurance and encourage people to seek protection through the mechanisms offered by the market "(DNP 2010, 135)

Similarly, the National Development Plan 2010-2014 recognizes that high exposure to risk and the use of informal risk management mechanisms, due to limited access to insurance increases vulnerability and reduces opportunities to overcome poverty. In this context, it is proposed to improve the supply of micro insurance in the country. As noted previously, the GC particularly emphasizes on damage insurance to cover losses in case of catastrophic events, situation is explained by the large losses which showed the country during the "Wave Winter 2010 - 2011" suffered by Colombia as a result the phenomenon of La Niña[74]. Note that, as noted in the demand section, insurance of natural disasters associated with climate change do not appear as a priority for the target population.

The government is committed to advancing the agenda of the Periodic Economic Benefits (BEPS) and savings encouragement. As will be seen later in the part of regulation of products, the government has promoted the delivery of monetary benefits with less than the minimum pension values, BEPS. By promoting these products it is expected to use micro insurance products as incentives for saving.

The Colombian government to promote transactional platforms is essential to promote financial inclusion. The Colombian Government recognizes the importance of these platforms to meet more complex procedures and operations.

[74] Wave Winter 2010-2011 led the country to declare a national disaster situation and the state of economic, social and ecological emergency because of serious public calamity. Currently the country is implementing the Plan of Action for emergency care caused by Ola Winter 2010-2011.

In the PND 2010-2014 the Colombian government proposed to implement four strategies (DNP 2010, 131): (i) To ensure the permanence formal of financial offer in those places where it has been expanding coverage; (Ii) support access to the financial system by the population currently unbanked; (Iii) enhance the use of financial services by diversifying financial products suitable for different population segments; and(iv) implement actions to ensure the economic and financial quality education for the entire population.
To meet the first strategic guideline, the Colombian government relies on two tools, CB and Mobile Financial Services (MFS), which promotes through its creation and regulation. The National Development Plan 2010-2014 emphasizes that the CB should be promoted particularly for increasing the volume of operations that can be performed through them, mentioning the payment of the "low quantity premium insurance" (DNP 2010, 132) [75]. In relation to SFM there has been significant progress in the country, both institutional and regulatory[76]. In this context, the MinTIC has played a very important role through its "Vive Digital" [77] and the insertion program, along with the Ministry of Finance and Public Credit, the Draft Law on Financial Inclusion, where the central point is precisely the creation of companies specializing in Deposits and Electronic Payments.

The GC is committed to the adoption of a national strategy for financial education. While Colombia currently does not have a national strategy, there has been clear progress to achieve such adoption. First, by the Decree 457 of 2014 the Intersectoral Commission for economic and financial education was created. This Committee is composed of a series of working groups, which will be responsible for analyzing in detail certain population segments, these being: (i) the population in formal education; (Ii) the active working population; (Iii) financial education for retirement stage; (Iv) small and medium enterprises; and (v) vulnerable population. Second, financial education is recognized as an essential component of promoting financial inclusion. Thirdly, it is recognized that financial education as a right of the consumer on a regulatory level. Fourthly, 2010-2014 PND Law established that the Ministry of National Education should include aspects of financial and economic education in education programs. Fifthly, it is clear l SFC strong interest in linking other public and private entities of nature to participate in designing financial education programs[78]. Sixth, the publication of the document "National Strategy for Financial Education" by different government entities, where the purpose was to conduct an analysis of the situation in Colombia and establish steps to adopt such a strategy (MinHacienda, Ministry of National Education, Bank of the Republic, SFC, FOGAFIN, FOGACOOP, CWA Securities and Exchange 2011)[79].

In Colombia, mandatory insurance to cover various risks are promoted. Colombia has a large number of compulsory insurance which are stimulated at national and local level. Among them can be mentioned SOAT; the insurance for common goods for co-ownership; of construction in progress; public infrastructure, public transport; of mortgaged property; supplementary insurance to workers; among others. In relation to goods and public interests, since 1993, in Colombia all assets and interests of the State should be insured. On the other hand, financial institutions under the surveillance of the SFC are required to accredit insurance against risks of fire and earthquake of mortgaged real estate to secure loans that have been granted, in the case of life insurance debtors, entities may decide to require[80] it. Actually, as an initiative of the Ministry of Housing, there is a bill being studied before the Congress[81] in where it is sought to make insurance compulsory for new housing against the risk of deterioration of structures for construction firms. It has been

[75] Later, it will be precisely in the section regulating the way in which they are regulated.
[76] The issue of regulation will be discussed in Section 5.
[77] Vive Digital Plan is the plan Colombia technology whose purpose is to expand the internet and develop the digital ecosystem of the country
[78] FASECOLDA presented a proposal to integrate the issue of financial education in safe working group comprised of the DPS, the Agency for overcoming extreme poverty, BDO, DNP and MINHAC.
[79] Bill 082/2011 (House of Representatives), presented by Juan Carlos Martínez Gutiérrez
[80] Recently, in order to avoid extra costs to consumers in such insurance Decree 673 of 2014, which will be analyzed in detail in Section 5 it was issued.
[81] Bill 029 of 2013.

insisted that these compulsory insurance consumers are not always aware of its existence (Quintero 2012). In this context, it has been encouraged through regulatory tools the clear dissemination of information, for example through the websites of the SFC, as well as insurance companies.

There is growing interest in promoting insurance of losses in case of natural disasters. Colombia has a national policy on natural disaster risk management [82], in which the importance of risk transfer through insurance is recognized. Similarly Colombia has a climate change strategy - National Plan for Adaptation to Climate Change, which is part of the PND 2010-2014- in which risk management is central. The progress of these two agendas was achieved as a result of the impact of the Winter Wave in 2010-2011. As a result of all these policies, currently the MinHacienda is leading with the World Bank a strategy of Disaster Risk Financing & Insurance (DRFI), which has four components: (i) define public policy objectives consistent with DRFI; (Ii) risk assessment of natural disasters for developing financial alternatives; (Iii) the design of an effective program of public property insurance against natural disasters; and (iv) managing budgets for disaster risk (GFDRR 2013). On a territorial level, there have been identified interesting experiences in Bogota and Manizales. The "Manizales insurance property" program is noteworthy since it offers collective insurance[83] of damage caused by voluntary subscription for social levels 1 and 2 since 1999. This product is offered in PPPs, in which the municipal administration facilitates the collection of premium, through the unified property tax bill. The appeal of this product is that once a porcentage[84] of insurable properties of the municipal area[85] pays the premium for liability insurance, product coverage will extend to other properties that by their social level (1 and 2) are exempt from property taxes (Cardona Arboleda 2007). Unfortunately during the years 1999-2004 the required percentage was not reached. After several studies and support from the World Bank and the DNP the product was adapted in 2006, indicating that if the required percentage is not achieved, the insurer will offer partial cover to the land exempt of tax (Campos, et al coverage. 2012).

5.2 Supervision

The main objectives of the SFC are to protect the financial system stability and protect consumers. Supervision of the insurance market rests with the President of the Republic, [86] who delegates such power to the SFC[87]. Given that the system's assets are concentrated in a few groups or financial conglomerates, consisting of institutions of different nature, a specialized, comprehensive and consolidated supervision is required, allowing tracking operations and exposures between entities of the same group or conglomerate and those timely notices situations that may lead to systemic problems. The strategic guidelines for the period 2010-2014 SFC are: (i) institutional strengthening of the SFC; (Ii) develop a model of risk-based supervision

[82] Law 1523 of 2012 adopts the national policy on disaster risk management and establishes the National System for Risk Management of Natural Disasters. Similarly, Decree 4147 of 2011, created the National Unit for Disaster Risk Management.
[83] The policy holder is the Municipality of Manizales.
[84] Currently 20%.
[85] The properties are insurable paying the tax.
[86] Article 189, paragraph 24 Colombia Political Constitution of 1991 and Article 10 of Law 43 of 1993.
[87] The SFC emerged in 2005 as a result of the merger of the Banking Superintendence of Colombia and the Superintendencia de Valores, fusion responded to the creation of a new scheme supervisor to respond to the reality of the Colombian financial system.

through the Integrated Framework Monitoring (MIS); (Iii) strengthening prudential requirements for controlled entities; (Iv) financial consumer defense; (V) improving levels of financial inclusion; and (vi) development of the capital market.

The SFC is interested in promoting micro insurance, and is making efforts to do so. The interest in the institution by this sector is prominent[88]. This interest can be explained from two perspectives: (i) this interest to include insurance in the debate promoting financial inclusion; and (ii) ensure adequate consumer protection. It is of interest to the supervisor to analyze whether these new consumers are adequately protected.

The SFC is in contact with stakeholders, particularly insurance companies and CM FASECOLDA. The various parties consulted agreed that these contacts have been enormously productive to improve knowledge of the SFC in relation to the so-called micro insurance existing products on the market. However, from both the need to formalize these relationships has been emphasized.

The SFC has made a major effort to reach out to all consumers of the national territory. This has been done through efforts to provide the SFC with the infrastructure and technological resources necessary so that consumer protection across the country (SFC and BDO 2014) is guaranteed.

Because of the variety of entities participating in the distribution of products of micro insurance, other oversight entities involved can be seen, this situation puts a weakness regarding consumer protection. While several marketing channels used in Micro insurance are not supervised, others are, but by oversight body other than the SFC. Such is the case of utilities supervised by the Superintendence of Public Utilities, or supermarkets supervised by the Superintendence of Industry and Commerce or cooperatives supervised by the SES. Similarly entities of supervision of transactional platforms such as cellular operators may be involved, as in the case of the Communications Regulation Commission (CRC). The problem with this is that the target population of Micro insurance can't be clear about who is the insurer of the policy -situation which was highlighted in the section demand- so they will assume it is the entity that distributes, and will complain to the supervisory body. This situation has already been presented in the past, specifically for distributed through a utility insurance. In such event, the consumer receiving said pressure and misinformation by the sales force, and despite not having given consent to sign the contract, received charges for insurance on their gas bill. In this case, the consumer filed a complaint with the Superintendence of Public[89] Services (Malaver 2011).

5.3 The impact of micro insurance market regulation

[88] Proof of this is the interest of the SFC in participating in the project and the high degree of collaboration that this team consultant has received from all sectors involved in insurance within the SFC.
[89] The consultant team also learned of cases registered with the SFC in which the insurance product is charged to new tenants of property, which are not benefiting from any form of such insurance and have not agreed to pay the cost of it to a third party.

Figure 24 processes applicable to micro insurance
Source: Made by myself

The applicable regulation. Not only the regulation of the insurance industry and the insurance contract is relevant, but also all kinds of standard that affects positively or negatively the entities participating and any stage of the proceedings applicable to the design, supply, distribution and use of micro insurance products (See Figure 24). These generally have to do with consumer protection, promotion of access to financial services, tax rules, data protection, electronic money, mobile banking and social security, among others.

Colombian micro insurance market has developed in the absence of a specific regulatory framework that encourages it or removes obstacles. Colombian insurance industry has not needed specific regulatory incentives to provide accessible and affordable insurance in the Colombian market, around the idea of micro insurance. Spontaneously the industry through FASECOLDA, has taken the lead not only in the product offering of such products, but also in the creation of the CM that besides of collecting important disaggregated information of micro insurance products offered by insurance entities, it also operates as a platform for discussion on access to insurance nationwide. Now the purpose of this diagnosis is used as a basis to promote sustained development of a responsible market for micro insurance that is centered on the needs and characteristics of the social levels 1, 2 and 3. As noted in previous sections of this diagnosis, there are some elements of the Colombian market that allow to preliminarily concluding that there is still a long way to go to achieve this goal. In this context, it is imperative to analyze in detail whether or not the regulatory framework is conducive enough for the market to develop responsibly and benefits the population to which these products are intended.

While there is no regulation on micro insurance, financial reform was emphatic in noting that the government should promote access to financial services and insurance to low-income population and small and medium enterprises. Article 24 of the financial reform of 2009 noted that it is an objective of the intervention to financial activity, "promoting access to financial services and insurance by the low-income population and small, medium and micro enterprises" [90]. Similarly, the GC was instruments for this intervention giving the power to make rules and establish instruments to facilitate access to financial services, insurance and those involving management and investment of funds raised from the public by the low-income population, small, medium and micro enterprises, and the conditions and mechanisms for the development of these services by entities that perform these activities[91.]

Colombian regulation recognizes consumer protection as one of its pillars. In this context tools to empower financial consumers and make him more responsible during decision making are promoted. When analyzing the regulation applicable to micro insurance it is palpable that consumer protection is

[90] Article 46 of the Organic Statute of the Financial System (EOSF).
[91] Article 48 of EOSF.

a central and cross-cutting issue. This is evident when analyzing the evaluation methodology for consumer of micro insurance protection designed by the Micro insurance Network applied to the Colombian case (Zimmerman, Magnoni and Camargo 2013), which was the base for the process of steps to protect consumers of micro insurance presented in 2012 (BMZ, GIZ MIN & 2012). Regulators and supervisors from the financial and insurance sector have been emphatic on the importance of consumer protection during all stages of financial services. This is from the time when product information is available, to the time conflicts arising from the provision of the service arise. This trend is evidenced not only by the fact that between 2009 and 2011, two important regulations related to this subject were enacted (the financial reform law that contains the Financial Consumer Protection Regime (RPCF) and the Consumer Protection Statute (EPC), but also the SFC has invested an important part of its income to the effective protection of the financial consumer[92]. Now, the regulation also notes that the consumers must adopt good protection practices, among these to check that the entity is supervised, read the contract's term, make sure they know the requirements to register claims or questions, among others.[93] The regulation foresees the importance of supporting consumer protection associations that are acknowledge on a constitutional level, and recognizes the creation of the National Network of Consumer Protection, created in November 2012.[94]

To analyze how regulation impacts the development of responsible micro insurance in Colombia, Figure 24 will be taken as base, which presents the applicable processes for the case of micro insurance products, and how regulation impacts will be analyzed in each stage. Thus the way this regulation impacts will be analyzed: (i) insurers; (Ii) marketing channels; (Iii) transactional platforms; (Iv) the processes of product design; (V) the processes of supply, marketing, underwriting, and administration; and (vi) those related to the handling of complaints and conflict resolution.

5.3.1 Insurers

Both cooperative insurance as insurance companies may exercise insurance activity in Colombia, prior authorization by the SFC. Only the entities licensed to practice a determined line of work by the SFC may exercise such activity[95]. Such entities must meet prudential requirements, including: minimum capital, solvency margins, technical reserves and investment regime. The enabling to the cooperative sector is favorable for the development of micro insurance in Colombia, since it is assumed that insurance cooperatives have a much more obvious social mission, they have the opportunity to learn in more detail the target population of micro insurance and have the solidarity sector as a distribution channel.

Cross-border trade insurance has recently been promoted. According to Article 61 of Law 1328 of 2009, in force since July 2013, it will allow foreign insurance companies to offer the country, and Colombian residents insurance covering risks associated with international shipping

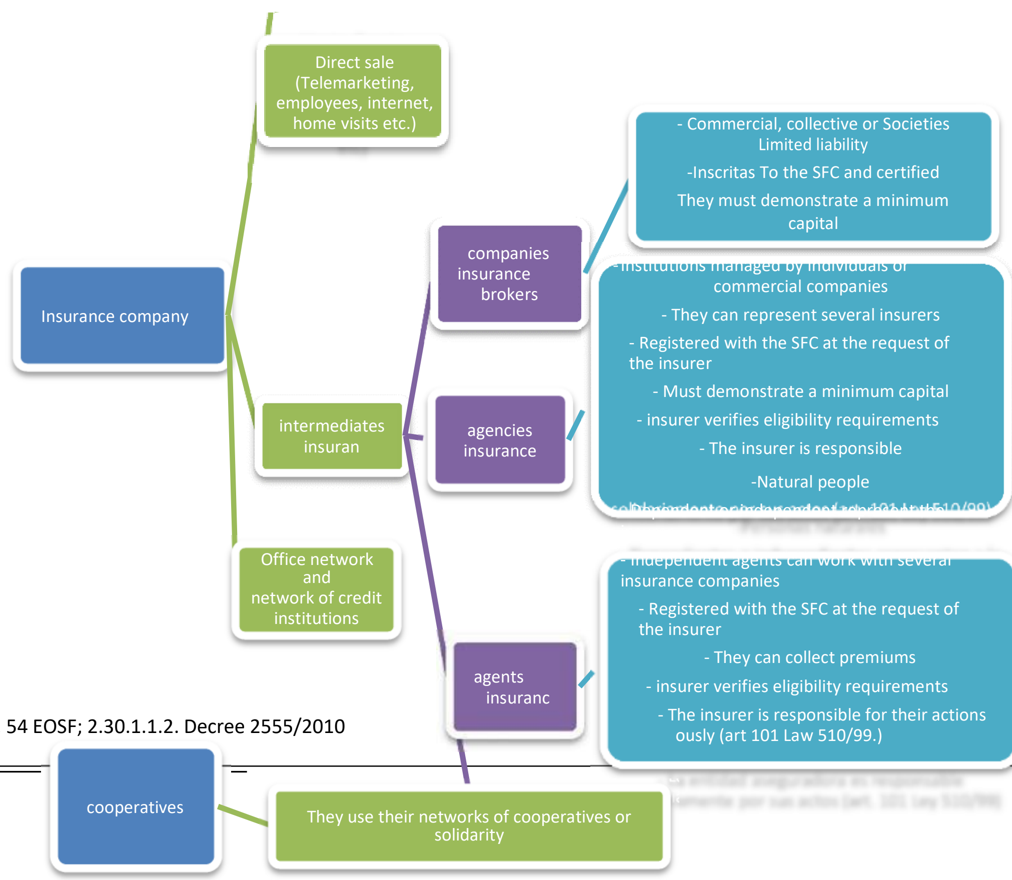
[92] According to the Board of Consumer Financial Protection (RPCF) included in the financial reform law, are financial consumers, customers, users and potential customers of insurance companies. The user is defined as the person without client uses the services, and the potential consumer is the person who is in talks with the entity to acquire a service offered. Article 2 RPCF.
[93] Article 6 and Article 3.2 RPCF. the Consumer Protection Statute (EPC).
[94] Article 75 and 85 of the EPC.
[95] Articles 150 and 335 CP Articles 5, 38 and Article 72 EOSF Cooperatives Act - Law 79/88

transportation, aviation, international trade and launching and space transportation. Similarly it is allowed for Colombian residents to acquire abroad all kinds of insurance policies, except those that are related to the social security system, compulsory insurance and all those that arise or require the acquisition or effect of these. With regard to State it is noted that it cannot act as an insurer, policyholder or beneficiary on policies acquired abroad, however, MinHacienda is authorized to take insurance that cover risks related to natural disasters. This opening puts pressure on local companies requiring them to compete internationally for its market which is positive to make them more competitive. The SFC requires a registration from the abroad entities that want to trade insurance products associated with international market transportation and satellites

While funeral services and insurance services have similar components, these are offered by funeral service companies and not by insurance entities. These companies are not supervised by the SFC, they do not meet the required prudential rules to insurers, and neither do they meet the requirements of consumer financial protection required of the latter.

5.3.2 Commercialization

The regulation allows the insurance products to be marketed to the public primarily through direct sales and insurance intermediaries. The regulation also allows marketing through networks of credit institutions in the case of massive insurance. There is currently no regulatory support to other entities other than credit institutions, to act as "marketing channels". Only insurers and professionals insurance intermediaries (agents, agencies and brokers) entities could "mediate" in the conclusion of insurance contracts[96]. However, the



96 Artículo40-43, 54 EOSF; 2.30.1.1.2. Decree 2555/2010

Colombian law allowed the "commercialization" of insurance products using the network of financial institutions (Camargo and Montoya, Micro insurance: Analysis of outstanding experiences in Latin America and the Caribbean 2011). The Colombian regulatory framework does not allow the marketing of insurance products through other outlets. Thus, currently the marketing of some products considered micro insurance, is performed under group or collective insurance contracts, where the "aggregator" is the policyholder, and their customers, insured and beneficiaries of it (Figure 25).

Figure 25 insurance Marketing in Colombia

Insurance companies can offer their products through employees, Internet or telemarketing, as part of their direct sales strategy. This possibility will be in addition to direct sales offers through its stores, offices and sale points[97]. In all cases, insurers must ensure that employees who provide such products to the public receive full training on the products they offer and consumer protection measures that they should adopt[98]. Training manuals should be reviewed and updated on a periodically[99]. There regulations designed to protect consumers in cases of distance selling or using non traditional[100] methods. It is noteworthy that for the internet sale, promotion is possible but to sign the contract it is required the processing of the form of customer knowledge, this is required in the context of the fight against money laundering.

5.3.2.1 Insurance Intermediaries

Brokers, agents and agencies must meet eligibility requirements, probity and in some cases constitute minimum capital for the activity of intermediation. The insurance intermediation is a regulated activity in Colombia, the reason is that the information and advice given at the time of the offer of an insurance product to the public requires not only knowledge but also the probity and financial capacity of who offers it to the public. From that perspective, the consumer is heavily dependent om the entity that "intermediates" the relationship between him and the insurer. Insurance brokers must be registered, and the SFC checks if they meet the requirements that check their suitability, probity and financial ability[101]. In the case of agencies and agents, insurance companies which are required to verify compliance with such requirements and are directly responsible for any of their acts[102]. In any case, the SFC is empowered to verify at any time that such insurance intermediaries comply with such requirements. For example Article 206 of the EOSF recognizes that the SFC has the right to verify the knowledge of the directors of brokers, agencies and agents

[97] Article 93 EOSF, Decree 2605/93.
[98] Article 8.ai and 8.a.ii. the RPCF; EPC and Decree 1499 of 2014.
[99] Article. 5.6. External Circular 015/2010
[100] Chapter V of Title III of the EPC.
[101] Requirements Artículo40 insurance brokers, 54 EOSF; Articles 1347-1353 C.Co
[102] The requirements of agents and agencies are established in Artículo41-43, 54 EOSF. Agencies are required to have a minimum capital of 16 SMLMV. Artículo80.1 EOSF). Articles 91, 98 and 75 of Law 45/1990. Insurance companies are responsible for the acts of agents and agencies (Article. 2.30.1.1.5 the Single Act).

regarding offered products[103]. Insurers must maintain a record of agencies[104]. The possibility of raising the standard of training of agents and agencies is currently being explored.

Insurance companies should provide training for insurance agents. These programs should be submitted to the SFC, and generally such requirement is fulfilled through training courses offered to agents by FASECOLDA.[105]

Insurance cooperatives can use the cooperative network as insurance intermediaries. This possibility is provided for in the Act 79 of 1988.

Financial reform derogated EOSF article that prohibits insurers from paying commissions or remuneration for work of intermediation to people other than insurance intermediaries. However the impact of this derogation is unclear. Article 188 of EOSF prohibited such practice; however law 1328 of 2009 repealed this article since 2013. The logical impact of such derogation would be that insurance companies may pay commissions to other entities other than insurance intermediaries. However because currently only insurance brokers, agencies and agents are authorized to perform such activity of intermediation, such reform is ineffective.

5.3.2.2 Other marketing channels

The mass marketing of insurance products that meet certain requirements is permitted only through networks of credit institutions. Marketing through the network of credit institutions is only possible for some insurance products that meet the characteristics of universality, simplicity and standardization, and "are susceptible to massive marketing for not requiring specific conditions in relation to persons or insurable interest "[106]. From this perspective, these items introduced massive marketing of insurance in Colombia. In this regard, Unique Decree specified that all collection transactions are considered authorized, receipt, payment, transfer, cash delivery, delivery and receipt of requests, documents, reports, newsletters, certificates, and in general any information related to network usage. The Single Act defined such concepts as follows: (i) Universality, policies of authorized insurance work lines must protect common interests and insurable risks to all individuals; (Ii) simplicity, policies of authorized insurance work lines should be easy to understand and use for natural persons; and (iii) standardization, the text of the policies of authorized insurance work lines must be equal for all natural persons according to their class of interest by class interest that is protected and therefore do not require specific conditions or differential treatment to the insured. Similarly, the Single Act defined "massive marketing" as "distribution of policies authorized through the network of credit institutions work lines, provided it complies with the conditions or requirements outlined above."

Among the classes considered suitable SOAT, family comprehensive insurance, professional multi-risk, auto insurance, funeral insurance, personal accident insurance, unemployment insurance, included

[103] It is noteworthy that the knowledge about insurance intermediation is presumed if the directors have directed an insurance company for at least two years or whether they acted as a consultant in insurance on him only decree Artículo2.30.1.1.3 same period.
[104] Artículo2.30.1.2.5. Unique Decree
[105] Article 3 of Decree 2605 of 1993.
[106] Article 6 of Law 389 of 1997.

educational, individual life and health voluntary pensions. The Unique Decree was emphatic in noting that in no case will there be able to be a place for a "delegation of professionalism or that the credit institution develops activities for which it is not legally entitled" [107]. On the other hand, the unique decree established as conditions of use of the network: (i) the conclusion of a contract for network use paid which will be submitted to the SFC prior to its conclusion[108]; (Ii) training for persons who must promote and manage their services; (Iii) the necessary measures will be taken to the public to identify the user entity and the establishment of credit used by the network; (Iv) noted that the obligations of credit institutions are limited to proper compliance with the instructions given by the user entity; and (v) the service will paid[109].

Recently, using as a basis the first and second embodiment of bancaseguros it was institutionalized in Colombia "Network Use of credit institutions" and the use of CB directly to certain entities was allowed, excluding insurance companies. Currently, the "Using of Network[110]" was allowed to other type of financial institutions[111] different to insurers entities, insurance intermediaries and capitalization companies originally authorized to use office network (Art. 93 EOSF) and marketing through the use of the entire network of credit institutions (Art. 5 Act 389 of 1997). Such institutionalization was generated as a tool for reducing regulatory arbitrage through other entities extension and expansion of the authorized operations. On the other hand, Decree 2672 of 2012 allowed the direct use of the CB to other entities to offer other services, so it the concept of CB was changed tacitly to third correspondents, however throughout the study we used the term CB, even though these can offer other services different from the current banking.

Given that insurers are not authorized to use the CB directly, the industry submitted a proposed amendment. The industry presented to MinHacienda a proposal to amend the CB, which would: (i) market insurance line of works that meet the conditions of universality, simplicity, standardization and massive marketing as defined in Article 2.31.2.2.1 of the Unique Decree ; (Ii) premium collection and payment of compensation; (Iii) delivery and receipt of insurance applications and their annexes and policies and annexes, general conditions, private and extracts, certificates and documents required to claim the loss.

According to the SFC, the fact that insurance companies will not authorize the use of CB to market insurance products, and that this faculty is not tactically contemplated regulating CB, also prevents that the CB that are part of other networks market products of insurance to users of the network. However, it is noteworthy that the industry does not share the interpretation of the SFC, since in their view, the possibility of using the CB that are part of the network to which it makes use of is contemplated by

[107] Article 2.31.2.2.3. One decree.

[108] Users of the network shall send to the SFC insurance policies to be sold through the network, in case such clausulados are already deposited only be informed use.

[109] Article 2.31.2.2.3. One decree. (Article 93 EOSF, Law 389/1997, Articles 2.31.2.2.1 to 2.31.2.2.4, 2.34.1.1.1 to 2.34.1.1.6 Decree 2555/2010....; Article 3.6.3.7. CBJ; Decree 1367/1998, Decree 2673/12)

[110] The "Red" was defined as "the set of means or elements through which their providers provide user services to the public network. Part of this, among others, offices, employees and information systems ". Article 2.34.1.1.1. One of the modified Decree by Decree 2673 of 2012.

[111] Article 2.34.1.1. Single decree amended by Decree 2673 of 2012.

Article 1.h External Circular 029 of 2013, which clearly indicates that credit institutions, can offer the following service through CB:

> "The promotion and management of the operations of other controlled entities, users of its network of offices, developing the provisions of Article 93 of the Organic Statute of the Financial System and Article 5 of Law 389 of 1997"

In this context, some entities consider that today the CB can "sell" insurance products when they are part of the network of the credit institution used by the insurer and all the rules applicable to CB shall apply to this case.

The regulation does not authorize others to sell insurance in Colombia. The alternative distribution channels have entered the market through the signing of strategic alliances that serve as a framework for collective or group insurance. The "marketing" in Colombia of micro insurance products through alternative distribution channels such as supermarkets or utilities, does not have regulatory support to be considered as "massive marketing". In practice, these new distribution channels participate as group policies takers, in which customers are insured- beneficiaries, and also hold strategic partnerships with such entities, which are onerous (Zuluaga, 2010). In the case of utilities, it will be seen later that they are entitled to operate as trading platforms, but not to market insurance products. In this context, the rules applicable to group insurance are relevant. In this regard the SFC has stressed the importance of clarifying how such entities are participating in the market[112]. Similarly, insurers and FASECOLDA are analyzing the best way to regulate such massive marketing channels.

Insurance group or collectives are partially regulated in Colombia. Group insurance where credit institutions are takers have been more regulated. In this context, the Unique Decree, and the recent Decree 673 of 2014, establishes requirements to be met by credit institutions to act as collective policies takers for its customers. The importance of ensuring access to information, the possibility of selecting the insurer, the need for individual certificates, avoids transferring overruns of premiums to the insured, among others[113] underlined. It is noteworthy that in the last report of complaints to the SFC sector, it was noted that the product reporting the highest number of complaints against life insurance companies is the group life insurance (53% of complaints) (SFC 2013).

5.3.3 Transactional platforms

The use of CB to collect premiums and pay compensation is feasible. Given that credit institutions can operate for collection and transfer of payments through the CB, insurance companies may use such channels to collect premiums and pay compensation, but this will require prior alliance with the establishment of credit. Deepening the capabilities of the CB is in the interests of strengthening transaction banking operations under financial inclusion. The regulation foresees the possibility that

[112] Financial Superintendence 2011055963-001 Concept, September 12, 2011.
[113] Articles 2.36.2.1.1. and 2.36.2.1.2. the Single Act, Artículo3.6.3.7 Basic Legal Circular, Artículo2.36.2.2.1. One decree, Decree 673 of 2014.

Correspondents create Networks of Correspondents, which can occur through network operators and alliances with companies with a network of points.
The utilities are authorized to collect payments for other services; therefore they are authorized to collect insurance premiums. This transaction platform was authorized under Decree 828 of 2007, and at that time emphasized the importance of checking that the consumer has actually authorized such service and therefore such payment.

In the last two years there have been significant advances to ensure the adoption of an appropriate regulatory framework for deepening the use of mobile phones as transactional platform. In Colombia, they have created products of easy access and management through mobile banking, such as "Electronic Deposits" [114] Electronic Savings Accounts (CAE) [115] and the simplified procedure of opening of savings accounts [116]. On the other hand, they have issued specific rules whose purpose is to advance the agenda on the issue of mobile banking. In this context it is important to mention the External Circular Letter 042 of 2012 of the SFC, where mobile banking is defined as a "channel of electronic banking in which the mobile service is used to perform operations and line number is associated with the service. The services provided through mobile devices and web browsers used are considered banking. "This Circular Letter also established the terms of security and quality of use of that channel. The combination of (i) easy access products and management through mobile banking; (Ii) promoting the CB and (ii) regulation of mobile banking represents its facilitating elements (Fernandez de Lis, et al. 2014). Besides the important bill currently pursuing financial inclusion in Congress, and provides for the creation of companies specializing in Deposits and Electronic Payments) other entities such as the CRC have advanced in this regard. The CRC adopted last March 2014 a resolution that clarifies the rules of access to networks to provide service móvil117 banking. Besides the important bill currently pursuing financial inclusion in Congress, and foresees the creation of Societies Specialized in Electronic Payments and Deposits, other entities such as the CRC have advanced in this regard. The CRC adopted last March 2014 a resolution that clarifies the rules of access to networks to provide mobile banking services[117].

On a tax level the message is contradictory: there are still tax rules that discourage electronic payments and the use bank accounts for such payments, however, there have been introduced tax rules that favor the use of financial services. In 1998 the Charge on Financial Tax (GMF) was introduced to encourage the use of these payment tools (4 per thousand). Even though today the emphasis is on promoting the use of financial services, this forecast persists[118]. On the other hand the law 1607 of 2012 increased the withholding of operations with plastic cards from 10% to 15%. However, the same law has sought to implement certain flexibilities to promote the use of financial services, first, it introduced exemptions of the GMF to the delivery of grants, withdrawals or resources available to the CAE and DE; and second, it introduced the return of two points of VAT on the purchase of goods and services made through mobile banking.

[114] Decree 4687 of 2011, which added Article 2.1.15.2. Single Decree.

[115] Articles 2.25.1.1.1. to 2.25.1.1.4. Single Decree External Circulars 007 and 008 of 2013 SFC,

[116] External Circular 053 of 2009 SFC.

[117] This resolution specifies aspects such as the financial sector maximum charge per SMS, establishes the obligation for mobile operators to open access to the USSD technology (supplementary service unstructured data) prohibits user fees for services of the financial system and
paid on behalf of banks, among others.

[118] He is currently pursuing a bill whose purpose is to eliminate the GMF in Colombia (Bill 193 of 2012).

5.3.4 Products

No prior authorization of the product is required, but prior authorization is required for work line operations and policy models. In Colombia, it is not necessary that the SFC approves insurance products to be offered by insurance companies. What is necessary is that entities apply for authorization of work lines wishing to operate by submitting a technical note and the clauses of the policies to the SFC. Because micro insurance products are marketed within the traditional work lines of industry, the approval thereof (for companies that already have authorized the relevant branches) is not necessary, which greatly reduces the cost for the development of it[119].

Previously insurers could offer funeral service insurance where compensations could be offered directly in kind or cash. Currently they can only offer funeral service insurance products that offer monetary compensation; this situation does not favor the consumer. This was due to the historical debate between insurers and providers funeral service companies, where the fact that the latter are not regulated or supervised, do not meet all prudential requirements and market conduct that are required to insurers was emphasized, and yet funeral services offered insurance. The regulator decided to restrict supply to funeral insurance to insurers, and funeral services to companies of funeral service. That being so, it was noted that funeral services didn't apply as insurance activity, "by which a person or a particular group of people, acquire the right to receive in-kind services of funeral kind (...)" [120.] In this context, companies that offer funeral services offer in practice "funeral service insurance in kind", even though these entities are not regulated or supervised, and this has affected the healthy competition and consumer protection. Today funeral service insurance consumers are forced to bear the costs of the funeral, for which they can borrow and then ask for reimbursement of money to the insurance company directly.

There have been (and continue to be) implemented tools to promote agricultural insurance in the country. Since 1993 it was recognized by law agricultural insurance in Colombia, in which case the premium payments would be supported by the state. Recently through several regulatory[121] tools, including the law of the national development plan it was sought to stimulate it. Thus in addition to the PPP mentioned in section supply with the Banco Agrario in the financial reform of 2009 they offered interesting stimuli: the law amended the definition of insurance including biohazards and livestock activities; It was indicated that for the credits protected by the agricultural insurance the cost of the premium assumed by the producer of the commission of service of the premium from the Agricultural Guarantee Fund[122] is deducted; it was stated that the premium subsidy of the agricultural insurance of law 69 of 1993 could be funded under the Agricultural Income Security Program (AIS); It was allowed that foreign insurance companies directly or through authorized intermediaries could offer agricultural insurance, for which the SFC recently created the Registry of Insurance Intermediaries and Foreign Agricultural Insurance (RAISAX) [123]. The CNSA in 2012 clearly stated the amount of premium subsidy for certain producers, noting that in the case of

[119] Article 1047 C.Co and 1.2.3.1. Basic Legal Circular (CBJ).
[120] Article 111 of the EOSF.
[121] For example Resolution 2 of 2012 of the National Agricultural Insurance Commission (CNSA).
[122] As long as the FAG acts as insurance benefit.
[123] External Circular 035 of 2011.

Finagro small farmers with credit, the subsidy would be 80% [124]. Similarly, the rate of the Value Added Tax (VAT) was reduced from 16% to 5%. Currently FASECOLDA, along with other entities, is supporting the "Project for Integral Development of Agricultural Insurance) (FASECOLDA 2013). It is noteworthy that the Colombian regulation requires students to formal education in agriculture and economy should provide training and advice to the rural population[125].

Micro insurance is promoted through regulation of BEPS in Colombia. In Colombia, the BEPS have been regulated which basis is found in Article 48 of the 1991 Constitution which foresees for the possibility of offering monetary benefits worth the minimum pension (the BEPS) [126]. Decree 604 of 2013 provides two incentives, a periodical one and a precise one, the first is an economic contribution of the State that rewards savings. The second is a subsidy to access micro insurance products providing coverage of disability and death in the country[127]. For this subsidy it is necessary that during the previous calendar year, the person has made at least six contributions or payments equivalent to six daily legal minimum wages (SMDLV).

Life insurance is exempt from VAT tax.

5.3.5 Offer, subscription and administration

In this section the impact of regulation on all applicable processes for the offering, sale, underwriting and administration of insurance products will be analyzed.

1. ***Product offering to the public***

The regulation focuses on ensuring that consumers make informed decisions and appropriately use insurance. In this context, the regulation emphasizes the importance that consumers understand and receive product information necessary to decide if they need the product, know the conditions, know what are the authorized channels for distribution and applicable transactional platforms, costs involved, their rights and obligations, mechanisms and deadlines for use, and the mechanisms available to register complaints and resolve conflicts[128]. This is evident if one considers that most of the complaints and claims to the insurance ombudsman are related to improper disclosure of information to consumers (Diaz and Finch 2011) (Camargo, Protection of the Micro insurance Consumer: Confronting the Impact of Poverty on Contractual Relationships 2012). This situation is found when analyzing the statistics of complaints during the second quarter of 2013 SFC, where 47% of the complaints in life insurance were related to the "inadequate provision of information in linking", followed by undue attention to the financial consumer (32%), and in the case of general insurance, this percentage was 48% and 36% respectively (SFC 2013). To accomplish this process these are

[124] For its part Resolution 28 of the Ministry of Agriculture and Rural Development (MARD) defines the object of the subsidy crops and ensure maximum values per hectare. ($ $ 7,600 to $ 10,800 short and long cycle to cycle.
[125] Article 66 of Law 115 of 1994.
[126] Legislative Act 01 of 2005, Article 84 of the financial reform of 2009, the PND 2010-2014 CONPES 156 of 2012 and Decree 604 of 2013.
[127] Article 9 of Decree 604 of 2013, as amended by Article 2 of Decree 2983 of 2013.
[128] Articles 3c, 7c and 7f RPCF; 3b and 4b articles SFC External Circular 015/2010, Article 9.1. External Circular 038/2010 Article 9.3. External Circular 038 of 2011.

recognized as principles: due diligence, transparency and financial education[129]. These types of elements are evidenced by:

- *Financial education is regarded as a principle and a right, and therefore an obligation for supervised entities[130].* Given the low levels of education of the target population for micro insurance these provisions are more relevant. The regulation allows insurers to design such programs directly or through using associations, unions or any other entity[131]. The SFC issued a concept related to financial education noting that it does not interfere in the determination of plans and education programs. Similarly, it noted that they must be offered through appropriate channels contain information concerning the Consumer Care System (SAC) and all relevant information[132] should be included, using appropriate teaching methods for the population[133]. It was also indicated that the direction of consumer financial protection of the SFC should make efforts to promote financial education. This is in line with the SFC to note that PPPs are important for the development of financial education programs. Financial education can not be confused with advertising (Zimmerman, Magnoni and Camargo 2013).

- *The consumer is entitled to receive related information products are that offered prior to the signing of the insurance contract or membership of a group insurance.* In addition to financial education efforts insurance companies directly or through intermediaries and regulated marketing channels must ensure that information about the products is offered[134]. The RPCF in particular, the Consumer Protection Statute, the SFC through its External Circular Letters regulates the type of information to be disclosed and how such information should be disclosed to consumers. However, in all regulations applicable to the insurance industry, the importance of ensuring that consumers give free and informed consent is present. In such way that a clear regulation on how to market the products[135], the content, form, language to be used in marketing tools, in the contract documents, and in each instrument, that allows providing information to the consumer is stablished[136]. Standardized models policies should be posted on the websites of the insurance entities[137].

- *the anticipated delivery of clauses to the policyholder is required as a mechanism to ensure informed consent, however this issue has expenses and is not*

[129] Article 97 of EOSF. Articles 3 and 7 of the request RPCF.
[130] SFC, Concept 2011066771-001, September 20, 2011, p. 1. Article 3f RPCF, Article 5d RPCF, Article 6 RPCF, Articles 7c and 8i RPCF, RPCF the 13th Article, Article 24s RPCF. Articles 1.3. and 1.11. SCP
[131] Artículo5.7. SFC External Circular 015/2010.
[132] 3f and 5d RPCF articles; Articles 4a and SFC 5.7 External Circular 015/2010 and Article 11.2.1.4.11. Single Decree.
[133] According to the SFC, "corresponds to each entity to determine the contents of plans and education programs while making a *active dissemination of the same, setting the recipients by type of channel, the amount of material used, periodicity, territorial scope, means, among others, according to his own diagnosis, surveys and analysis*". SFC, Concept 2011035724-011, June 13, 2011, p. 1.
[134] Section 5a of the RPCF. Article 7c RPCF; Article 97 EOSF; Articles 3b and 4b SFC External Circular 015/2010; Article 9.1. External Circular 038/2010.
[135] Article 326 EOSF, External Circular 015/2007 SFC, SFC External Circular 050/2009, Article 3.1.4. and Title V of the EPC.
[136] In particular Articles 3, 5, 7, 9 and 10 RPCF, 3 and 4 SFC External Circular 015/2010, 9 SFC External Circular 038/2011, Article 3 and Chapter II, Title VII of the EPC. Article 100 and 184 EOSF and Article 1.2.1. CBJ.
[137] For. 2 Article 9 RPCF and 5.8. External Circular 015/2010. Article 9 External Circular 038/2011 SFC.

necessarily appropriate for the consumer of micro insurance-. Article 37 of the EPC by regulating adhesion contracts, indicated for the specific case of insurance contracts that "the insurer will advance delivery of clause to the policyholder, explaining the content of coverage, exclusions and warranties".

- *This right to receive appropriate information extends throughout the life of the contract insurance contract*[138]*.*Thus, insurers are not required only the delivery of the contractual documents at the time of signing the contract, but also to make sure to keep consumers informed properly throughout the life of the contract.

- *There should be clarity on the identity and quality of entities that participate in the supply and distribution of products*. Who the insurer is must be identified, the marketing channels and transactional platforms participating.

- *The obligation to inform the insured is also required*. In case of inaccurately declaring or not declaring a state of risk, the contract will be declared void or establish a proportional reduction of the premium and the amount insured[139]. So it is imperative that the insured knows they have that obligation.

- *The SFC shall publish in national and regional newspapers the price of massive insurance offered*. Since 2006, the SFC has published monthly rate information services and financial products such as savings accounts, credit cards, debit cards, use of ATMs and checking accounts so that financial consumers have the ability to compare rates offered by financial institutions.

- *In order that the beneficiaries are aware of the existence of certain insurance which they are beneficiaries of, the regulation foresaw for the creation of the Single Registry of Insurance.* The RUS provides information on individual life insurance, group life, voluntary auto insurance and compulsory insurance of common property which is publicly available on the FASECOLDA website [140]. This initiative is of interest if it is considered that the existence of compulsory insurance of which the policyholders, insurers or beneficiaries are not aware is a concern.

2. Sales and Subscription

The regulation does not impose excessive requirements that could delay the sale and subscription procedures of micro insurance products.

- *The improvement of the distance insurance contract is allowed.* Should only mediate the prior agreement of wills and allowed this to happen distance through electronic tools, phone calls, among others. In these cases, one would think that the right of withdrawal of five days would apply

[138] Artículo97 EOSF.
[139] Article 1058 C.Co.
[140] Article 47 RPCF, Decree 3680/09 and 2775/10. (Article 78 of RPCF, Decree 3680/09 and 2775/10 - Constitutional Court Judgment C-640/10)

after signing the contract under Article 47 of the EPC, however, it is alleged by the doctrine on the understanding that the insurance contract is perfected with the simple voluntary agreement so that the coverage of the insurance company begins immediately, the right of withdrawal would be unworkable. However, Colombian regulation recognizes the right to terminate the insurance contract at any time.

- *Micro insurance is benefited by the exceptions of applications of the consumer knowledge requirements in the context of prevention of money laundering for certain insurance products.* External Circular Letter 026 of 2008 by the SFC establishes a number of exceptions for the processing of customer knowledge questionnaire for certain insurance, included insurance are: (i) those relating to social security; (Ii) taken through mass marketing or bancaseguros provided that the premium payment is made by direct discount of a savings account, checking account or credit card, and that the customer has expressly authorized the transfer; (Iii) those taken by natural or legal persons on behalf and in favor of their employees, arising from a contract of employment or employment relationship, regarding the information of the insured and the beneficiary; (Iv) funeral rites; (V) those taken by natural or legal persons in the same insurance company, in which the insured value is equal to or less than 135 SMMLV and the maximum bi-monthly premium payment is equal to or less than one-twelfth of 1 SMMLV. Given that most micro insurance products are offered to assimilate these categories, such exceptions are beneficial for micro insurance. However at the time of payment of the claim this questionnaire must be filled out, a fact that was highlighted as an obstacle to micro insurance. Similarly, it was noted that the quantitative limit set out in paragraph (v) is very low.

- *The policy will be given to the policy holder 15 days after the insurance contract. In case of group insurance, individual certificates must be delivered to the insured.*

- *The premiums must be paid during the month following the reception of the policy unless otherwise agreed. There are no restrictions regarding the payment of premiums. Nonpayment* in that period generates contract termination[141].

The regulation prohibits the use of terms and unfair practices. In the case where unfair terms are included, they must be removed and won't be opposable to consumers. Supervised entities must avoid any conduct that constitutes a contractual abuse and may generate an "abuse of dominant position" from the insurer[142]. Currently the insurance ombudsman of each company's mission is to identify such clauses[143]. It is noteworthy that the general conditions of contracts shall be interpreted in the most favorable way to the consumer[144]. Tied sales are abusive practices.

The regulation emphasizes the importance of protecting data and transactions by consumers. In Colombia the express permission of consumers about store and use your personal data is required .Colombia has a strong regulatory framework for data protection which is supported

[141] Article 1066 C.Co.

[142] Artículo7e of RPCF.

[143] Articles 11 and 12 of the RPCF, External Circular 039/2011 and 042/2011. Chapter III Title III of EPC.

[144] Article 34 EPC.

by constitutional recognition of the right to privacy and the right to rectify personal information contained in public databases and private data. In this context, the 1582 law of 2012 (new law of "Habeas Data") establishes the mechanisms to ensure their protection. Meanwhile, they have adopted various tools to ensure data protection and money in the financial sector. This is how the supervised entities must keep proof of payment made by the consumers[145], establish minimum conditions of safety, quality, accountability and privacy for transactions where various channels are used (collectors, call centers, mobile banking, internet, etc.), and adopt tools and controls to protect the confidentiality of information provided by the consumidores[146]. It is noteworthy that the Law of Habeas Data forced all entities to obtain express authorization from their clients for storage and use of personal data. In a subsequent manner, Decree 1377 of 2013 foresaw that for data collected before the issuance of the decree, if it is not possible to apply to each holder consent to the processing of personal data, they may implement alternative mechanisms such as wide national circulation diaries, websites and others. However such a request persists for new customers.

3. *Administration*

The beneficiary must report the incident three days after its occurrence and must prove the loss. The law allows that period to be extended but not reduced, such permission is positive for micro insurance because within three days is short for these cases. In any case the consumer actions related to the insurance contract are subject to a statute of limitations (2 ordinary years and five extraordinary years) [147].

The insurer should not require further formalities to those prescribed by the law to understand the incident as proved and the right of the beneficiary to receive compensation. The systematic practices to prevent or delay unjustifiably the claim may result in revocation of the license of the insurer[148]. Insurance companies should not ask for information them already have[149].

The insurer must pay compensation a month after loss has been proven and the right to receive compensation. The policy will provide direct enforcement once a month has gone by and if the insurer objects to it[150]. Not paid within the prescribed period, the insurer will pay interest, and if the consumer suffered any loss from such delay, the consumer is entitled to offset from such damage[151]. According to data provided by FASECOLDA, attention times for claims by insurance companies in Colombia are often, as a general rule, less than one month. However, this term of payment of the compensation of one month is excessive for micro insurance. First, the target population requires to immediately receiving compensation otherwise their financial conditions and life are put at risk because of such delays. This will happen because they have to take loans with lenders drop by drop at high rates of interest, or must sell assets, or send their children to work, at the expense of their education. Second, the non-payment of compensation brings as an

[145] (Artículo103 EOSF, Artículo7g RPCF)
[146] 7i RPCF, 7q of RPCF. Article 2.14 and 3.1. SFC External Circular 042/2012.
[147] Artículo1075 C.Co and 185 EOSF. Article 1081 C.Co.
[148] Article 100.3 EOSF.
[149] RPCF 7s.
[150] Artículo1053 C.Co
[151] Article 1077 C.Co. and Article 1080 C.Co.

effect the consolidation a negative perception of insurance by the target population, decreasing their trust in it. From this perspective, delays in payment of compensation reduce the value of the product for the consumer of micro insurance.

5.3.5.1 Complaint handling and dispute resolution

The financial consumer has various tools to register their complaints and claims: the Consumer Care System (SAC), the Department of Consumer Affairs of the SFC and the Financial Consumer Ombudsman (DCF) [152]*.*

- *The RPCF created the SAC, which has among its objectives to ensure proper handling complaints and claims of financial consumers*. The SAC is a comprehensive tool that was created so that controlled entities adopt care practices and respect for the financial consumer. Under the SAC, information about the requirements, formalities, places, deadlines for registering complaints and claims before the supervised entities should be offered; and the possibility of using the DCF, functions, procedures and all information relating to its use[153]. Controlled entities should ensure that they have the human and technological resources in their agencies that consumers receive appropriate care in handling complaints[154]. To address the grievances and complaints of consumers, institutions must act prudently, respond clearly, adequate and in a timely manner, using the procedures established for this purpose by the SAC[155]. Generally, the SAC is accessible through the website of the insurance companies.

- *Each insurer must hire a DFC, which must act independently and autonomously, and can represent more than one insurance company*. The DFC must be registered and must have at least 5 years of professional experience, industry expertise, and demonstrate probity. The DFC resolves complaints and claims of consumers, but can also act as a mediator or conciliator [156], for which the procedure established by the regulación[157] will be applied. Similarly propose legal reforms and make recommendations to the supervised entities. Their decisions may be binding for the entity, which will depend on the rules of it, but the DFC cannot decide on damages, penalty or compensation. It is noteworthy that concerns arise regarding the fairness of the DFC whenever it is paid by the insurance company.

- *The SFC consolidates statistics and provides analysis related to the handling of complaints against insurance companies, the SFC and the DCF. These reports are of public access.* On its website, these reports are available where analysis of products with more numbers of complaints, companies, and how the complaint was resolved are presented. It is noteworthy that according to the latest statistical report of complaints received during 2013, it was noted that since 2010 to 2013 the complaints concerning the insurance sector

[152] Article 5e RPCF, Artículo11.2.1.4.11. Decree 2555/2010.
[153] SFC External Circular 038/2011 and Art.5.2. SFC External Circular 015/2010
[154] Article 7l of RPCF.
[155] Art.5.2. SFC External Circular 015/2010.
[156] To this must be a lawyer and be certified as a conciliator. Decree 3756/2007 (Article 2 Decree 3993/2010 and Law 640/2001. In that case the settlement agreement shall be considered as "res judicata".
[157] Articles 13 to 20 RPCF / items 2.34.2.1.5. Single Decree. Article 18 RPCF, SFC External Circular 015/2010. Decree 3993/2010. Artículos2.34.2.1. to 2.34.2.1.9. One decree.

Have increased by171%. The reasons most common for complaint in 2013 to the life business were: inadequate provision of information on linkage (44%), undue attention to financial consumers (33%) and contractual aspects (10%). The products with the highest number of complaints in this field are: life group insurance (53%), professional's risks (21%), individual life insurance (13%), health insurance (6%) and personal accident insurance (3%). Insurers with the highest proportion of complaints in the life business were Colpatria (40.41%) followed by a big difference by Suramericana (14.36%). With regard to the field of general insurance, the most common reasons for complaints are inadequate provision of information on linkage (40%), undue attention to financial consumers (36%) and contractual aspects (11%). The products with the highest number of complaints were: car insurance (37%), life group insurance (10%), personal accident (7%) and subtraction (7%). Insurers with the highest proportion of complaints are the same as in the life business, 48% and 17% respectively (SFC 2013).

Consumers can resolve their disputes with insurers through the DFC, with the SFC, and before judicial national courts.

- *The SFC has since 2009 judicial office to decide in disputes between financial consumers and institutions that are supervised*. This is of great interest to protect consumers of micro insurance, particularly because it focuses on small causes (SFC and BDO 2014). In 2013, 852 claims of which 688 were minimal amount (less than 40 SMLMV) and 13% were related to insurance contracts[158]. Their decision is final and binding[159]. The process is straightforward and effective; particularly the SFC has implemented technologies in the process to ensure the presence and virtual interaction of the consumer.

- *Colombian justice recognizes a comprehensive inventory of legal action that can be used by consumers of micro insurance*. For example actions based on non-compliance of the insurance contract, in which case the ordinary courts are competent. Or actions that have a constitutional fundament, like the popular or group actions.
- *According to the regulation, consumer protection agencies, such as consumer protection leagues, can offer assistance to consumers in this type of process*. In Colombia the Colombian Confederation of Consumers plays an important role and has contact with the lower social level of the population through programs such as "Tal Cual" and "consumer newsletter".

- *Law 1086 of 2006 law recognizes that law students in their final year should provide legal aid services in legal clinics, which are intended for social levels 1, 2 and 3*. Similarly legal clinics provide free consumer advice leagues.

[158] The judicial power of the SFC is limited to issues related to the implementation and enforcement of contracts - including the insurance contract.
[159] Articles 56.3., 57-58 EPC. Article 11.2.1.4.14.1. Decree 2555/2010.

6 Findings

6.1 Context

1. **Colombia is particularly exposed to natural disasters, a situation that has increased due to climate change.** This situation suggests the need for risk transfer tools for this type of risk for social levels 1, 2 and 3.
2. **The government has made the Colombian economy grow exponentially, and for levels of poverty and inequality to be reduced.** However there is still a long way to go and the government is aware of the importance of PPPs to achieve these goals.
3. **Poverty persists considerably in rural areas and is particularly suffered by the displaced, Afro-Colombians and indigenous.** These population segments require efficient risk management strategies to which they are particularly exposed, and also these risk management strategies can be offered within the framework of governmental processes that support them. Such is the case of land restitution process.
4. **Deficiencies of literacy in the country, as well as the gap between rural and urban areas, are an essential factor to consider in the development of micro insurance in the country.**
5. **The woman plays an essential role in the economy and requires risk management tools tailored to their specific needs.**
6. **While unemployment is declining, informality persists, which brings a multitude of deprivation and exposure to certain risks that should be considered in the design of micro insurance products.**
7. **Majority of the Colombian population lives in urban areas of the country, a population that is subject to risks other than the rural population and also requires insurance products tailored to their needs.**
8. **The cooperative sector in Colombia is considerable and concentrates the target population of micro insurance, among these the population belonging to the social levels 1, 2 and 3, small and medium producers and micro and small entrepreneurs.**
9. **Colombia has implemented various strategies to improve levels of access to financial services for social levels 1, 2 and 3. PCs and mobile consultants are of great interest, which can operate as transactional platforms in the context of micro insurance products.**
10. **Mobile banking is looming as the new catalyst for financial inclusion in the country and this can play an important role for the development of micro insurance.**
11. **PCs and mobile banking are being used increasingly to transfer benefits to beneficiaries of social programs in the country to which products of micro insurance are being and will continue being offered to.**
12. **Despite progress in recent years in access ...** there is still a significant gap in the coverage level for the financial system between urban and rural areas in the country. This gap is even greater for insurance than for other financial services. Similarly there is still long way to go with regard to improving the levels of use of financial products.

6.2 Offer

Insurance industry

1. **Colombian insurance market has grown in recent years. The use of various marketing channels has facilitated this growth; however, penetration rates remain low and the products are undiversified, this trend is reflected in the micro insurance market.** It may be possible that the growth experienced has a direct relationship with the expansion of distribution channels rather than greater innovation and diversification in the type of coverage offered.
2. **cross-border trade recently allowed insurance, so that residents in the country can purchase policies abroad.** This possibility wide competition for micro insurance market, but also suggests potential problems of consumer protection for such products.
3. **MinHacienda is allowed to subscribe insurance policies abroad to cover risks related to natural disasters.** This could mean that insurance contracts that benefit the target population of micro insurance aimed to protect against natural disasters could be subscribed abroad by the MinHacienda.

The micro insurance market

1. **The universe of micro insurance market in Colombia is composed of various categories and all of them should be considered since the perception by the population of one of them hits indiscriminately to the entire universe of micro insurance market.** The categories are: (i) insurance classified as micro insurance by FASECOLDA – either or not considered for this diagnosis as micro insurance; (Ii) massive low-cost insurance; (Iii) compulsory insurance; (Iv) products offered through PPP; and (v) informal insurance.

- ***Micro insurance according to FASECOLDA and massive insurance***

1. **The Colombian insurance industry, led by FASECOLDA, has led the access of insurance in the country through the concept of micro insurance.**
2. **The CM has been essential in this promotion. The report by the CM on micro insurance market has been essential to monitor this access.** However this report has inaccuracies that should be highlighted to avoid erroneous conclusions of micro insurance market based on such reports. These inaccuracies are due to (i) the reports include products that are not necessarily micro insurance, but low-cost insurance; (Ii) certain insurers involved in micro insurance don't report information; (Iii) only 17 of the 24 participating in the CM report information; and (iv) there is a lack of data disaggregated by social segments.
3. **FASECOLDA has made efforts to adopt a definition of micro insurance incorporating qualitative and quantitative elements, and also ensure that products are reported as such to meet the above criteria, however there are different views of what is a micro insurance product, and this is reflected in reports.** There is no definition of "micro insurance" in the Colombian regulation. The sector information is based on data provided by FASECOLDA based on the

definition of the trade union organization and its partners have developed. This lack of definition has led different views, approaches and models of micro insurance to coexist within the sector. Mainly, the definition and data collection allows both micro insurance and low-cost massive insurance to be monitored under the same scheme.

4. **Market development of micro insurance demarcated by FASECOLDA can't be assessed solely through market reports of micro insurance by CM due to the shortcomings mentioned above.** According to figures from FASECOLDA, the number of risks insured through micro insurance for December 2013 reached approximately 6.09 million, representing 4.1% of the portfolios of insurance companies in terms of premiums written, and would result in a penetration of 16.1% of the target population of micro insurance market, which was determined at 37.8 million people. The figures also show a non-diversified market, as it is focused on providing products of personal accident and life group. The product offering impact, such as health micro insurance is reduced.
5. **Seven challenges were identified by the insurance industry to develop the micro insurance market.** These being: (i) access to the population; (Ii) collection of premiums; (Iii) renewal and persistence;
(Iv) Commissions intermediaries and channels; (V) training of intermediaries; (Vi) product design; Y
(Vii) Simplification of procedures associated with the regulation against money laundering.

- ***The products promoted by the Colombian government under PPP***

1. **PPPs have emphasized the importance of distinguishing conventional micro-insurance available at low cost and affordable to low-income population -**massive low cost-insurance. Thus, it has been essential the design of insurance products focused on the needs and peculiarities of the most vulnerable population.
2. **PPPs are an important instrument to bring the public and private sector closer and encourage learning platforms.** Some of the important pilot projects have served and still have enough potential to enable companies to have a better understanding of the reality of low-income households, and their needs and demands in insurance.
3. **Socialization of experiences and lessons learned to participants in the value chain is still at an early stage, however such socialization should be potentiated.**
4. **Entities such as the development bank BANCOLDEX have identified as a major challenge to the sustainability of these initiatives, regulatory limitations on insurance marketing.**
5. **The government has a number of social programs and entrepreneurship that have an important captive demand for micro insurance. Some of these programs have "unlocked" the private sector.** In this way channels have been opened to the private sector to provide insurance to this captive demand made by micro entrepreneurs, microenterprises, beneficiaries of social programs, small farmers, etc. While the industry has been timid in participating in these initiatives, it is clear that we face a learning process with great potential.

- ***Channels and transactional platforms***

1. **Colombia is an international benchmark in relation to innovation in alternative channels of massive distribution; however there is still a way to go with respect to capillary channels in social levels 1, 2 and 3 specifically.** While this element is very positive for the agenda

aimed at promoting access to insurance, since in the vast majority of cases, such channels have access to a large proportion of the population, including social levels 1, 2 and 3, are not necessarily appropriate for micro insurance because they are not specifically intended for these social levels. These alternative channels of massive distribution are mainly utilities, credit institutions in the context of bancaseguros and superstores. Over 50% of policyholders have access to insurance through utilities while more traditional distribution channels of micro insurance, such as cooperatives and MFIs represent only 17% of the insured by micro insurance.

2. **An interesting channel that takes hold in Colombia and which plays an important role in social levels 1, 2 and 3, is the solidarity sector.** This channel is extremely relevant for micro insurance, like the compensation funds, which, in contrast to the solidarity sector, are still unexplored.
3. **Generally massive alternative distribution channels are expensive and also used in triangular relationships where the insurance participates -facilitating the subscription for direct sale- and / or a professional intermediary -agent, broker or agency-**. The most distinctive feature of mass channels are high distribution costs involved. This is directly related to the quasi-monopolistic position and these channels have low bargaining power possessed by the companies. Add to that the cost incurred by involving a professional intermediary to the relationship. In all cases, the main victims of this situation are the end users who are transferred the cost, so they see higher premiums, reducing their affordability.
4. **There underused channels and transactional platforms.** Some channels and transactional platforms that could reach the homes of social levels 1, 2 and 3 and increase access to insurance of the Colombian population are not currently used or if they are, are not used sufficiently, on the recommendations of this diagnosis some ideas of innovation and deepening will be offered. Between channels and underused transactional platforms cooperatives, family compensation funds, the remittance system, network BANCOLDEX MFIs, banks with access to social levels 1, 2 and 3, and CB are included.
5. **The use of unregulated and supervised channels that are not necessarily trained and which is not clear how they assume responsibilities for transparency to the consumer.**

- ***The value of micro insurance products offered in Colombia***

1. **There is still a long way to go to design micro insurance products that provide value to the target population**:

- Colombian insurance companies, even those with a strong presence in micro insurance, conducted few studies of demand, which prevents them from meeting the needs and preferences of low-income households and adapt their offer to them.
- Many of the policies of "micro insurance" revised have excessive exclusions; They are offered using certificates and complicated forms and non-simplified procedures to purchase the products and make claims in case of accidents. The deadlines for payment of compensation are not adapted for micro insurance.
- Design of the so-called micro insurance products in Colombia does not always ensure the protection of the risks to which social levels 1, 2 and 3 are exposed. Just because these customers

have access to and are insured acquired does not mean that coverage is appropriate, that they understand the terms of the insurance products they purchase and therefore use them. This is not only an obstacle to the progress of the sector but generates certain questions relating to consumer protection, since in some cases they are not in a position to properly understand what they are buying, what their rights regarding the purchased product and how they can use it.

- Value of protection for the client of micro insurance products offered is currently low: Loss ratios for micro insurance products are particularly low, whatever the type of risk hedged; on average loss ratio is about 20%. That can be explained by the high cost of distribution channels that increase rates of expenses incurred, or that the product does not report value to the insured, as the relationship between money is insufficient. The low rates of existing renewal confirm the latter.

- ***The state of micro insurance market development in Colombia***

Colombian micro insurance market is a growing market in the process of diversification. This is because it is characterized by and offer of the formal insurance sector, which uses alternative and traditional channels to distribute their products, but using reduced-way channels with potential levels 1, 2 and 3, as well as transactional platforms independently to those offered by their channels. With regard to the products, they are the vast majority undiversified and not always report real value to end users.

6.3 Demand

- ***Perception and risk exposure for the target population***

1. **The risks of most concern to the target population are death, sickness, unemployment, accident, loss of assets and violence.** But most traded micro insurance to low-income population are group life insurance and personal accident insurance (93%) and individual life (14%). So there are still products of interest to offer.
2. **There is a latent demand for products from natural disasters, but few offer such products.** Also, the target population has very little knowledge of them.
3. **Insurance that most interest the low-income target segment are funeral insurance and life insurance.**
4. **The information collected shows that the risks experienced by populations in urban and rural areas are different, and the strategies used to mitigate them**. This again highlights the need to know well these target populations, their characteristics and main difficulties during product design.

- ***Risk management mechanisms***

1. **Insurance is not the most used by low-income population to manage unforeseen risks or unexpected expenses form.** Participants of the GFs prefer to seek a loan or credit, for which often turn to a family member or a drip / moneylender.
2. **Insurance has opportunity**. According to information obtained by the GFs and other studies, loans are commonly used as a strategic risk mitigation, which can have negative effects as this could increase levels of over-indebtedness. From this perspective, insurance represent an opportunity to offer this population a mitigation strategy less costly risks, and also combat over-indebtedness.
3. **There is a latent demand for tangible products, that the lower income people understand that it generates added value.** Participants of the GFs commented several times that funeral insurance is not perceived as an expense precisely because they understand perfectly the compensation they will receive for the disbursement they're doing. The cost of the premium being paid isn't high compared to the benefit they receive.

- ***Factors affecting the demand for insurance and micro insurance***

1. **The idea of "insurance" as a concept that helps manage and mitigate the risks of everyday life is welcomed by the low-income population**. However, insurance is often seen as a non-necessary expense. There is a major contradiction between the two visions.
2. **There is no evidence that the target population has the capacity to differentiate micro insurance from other insurance.**
3. **The lack of financial education remains one of the most important obstacles to the expansion of insurance and micro insurance to the lower income segments of the Colombian population.** There is information, but it is not designed for these social segments, so they are not able to assess the relevance of the services offered, nor differentiate what best fits their needs. This relates to the fact that in different media there is a very strong advertising of the sector, but advertising offer is so wide that in many cases causes confusion because the recipients of it don't have the criteria for choosing the best option.
4. **One of the inhibitors to purchase insurance is its cost.** This factor makes it able to determine that the micro insurance target population would be social levels 2 and 3 that count with a bigger inquisitional power which most of the level 1 lacks. But it is important to note that micro insurance cannot be synonymous with "cheap insurance".
5. **The flexibility of payments is other fundamental factors for the purchase of insurance products.** One of the main outstanding features for them was that they had insurance "moderate quotas and the possibility of flexible payment".
6. **The highest rates of renewal are when the payment is linked to the payment of a public service bill.** Considering that the consumers are aware of the existence and benefits of products, and consent to renew the product, it would be reasonable to say that when payments are accessible (through a convenient channel to the low-income population) these, most likely, will buy and pay for the product, and probably will continue to pay and

renewing. But a big factor of the renewal is having had a good experience with the product and suppliers.

7. **There is little differentiation between social security and insurance.** This is particularly evident in rural areas of the country, where means that low-income people have to learn are much lower.
8. **There is distrust of banks with GF participants, when interviewing the participants; it is evident that this mistrust extends in some cases to insurance companies.** This is happening even if the ones that have relationships with banking entities and different services are not many.
9. **The problem of mistrust is compounded by the negative experiences that family, friends or acquaintances of the participants in the GFs have had.** This indicates that insurance companies have not made efforts to reach these lower income populations. One of the key lessons of this study-country is that insurance companies should be able to develop not only products that generate confidence in the low-income population, but also marketing and communication appropriate to improve the perception people have of the sector .
10. **Companies need to know in detail the needs of the social levels 1, 2 and 3 to design suitable products, covering real risks and at the same that the benefits are tangible.** Examples would be the efforts of Bancóldex in the context of the Life FUTUREX micro insurance, where vaccination campaigns, celebration of Mother's Day, delivery of school kits were offered. Participants of the GFs have mentioned that insurance companies should make products "... attractive for people to see how important it is to have insurance." Companies should seek to provide tangible products that are attractive to this population, which still has very little experience with formal insurance.
11. **The interest of having personal advisers to provide assistance and support to understand the products appeared, as this generates a relationship of trust and support to the provider.** However it is noteworthy that they can increase costs. So a balance between the two elements is required.

6.4 Public policies, supervision and regulation

- ***Public policies***

1. **The GC recognizes the importance of insurance as a tool for risk management and financial inclusion, this interest favors the micro insurance market in the country.** The government recognizes its importance not only through the integration of insurance in the financial inclusion agenda, but in the management of natural disasters as well as for handling general risks of public and private entities through the recognition of compulsory insurance.

2. **The government has opened channels to promote access to insurance, thus "unlocking" captive demand of micro insurance to the private sector.** This was mainly made to beneficiaries of some social programs and entrepreneurship in the country. Similarly, recently the inclusion of an insurance grant to purchase micro insurance products as savings incentive under the BEPS was included.

3. **Colombia has an institutional disaster management policy that recognizes the importance of transfer risk.** The DRFI strategy can leverage the debate on natural disaster management on a micro level for micro insurance target population. Similarly, an interesting PPP experience was identified that directly benefits the lower social levels of the population in the city of Manizales reflects the importance of the transfer of risk of natural disasters through insurance.

4. **In the context of promoting financial inclusion, the GC has opened interesting transactional platforms that are useful for micro insurance, particularly in the case of CB and mobile banking.** Given that the penetration of CB in the country is important today, the GC has focused mainly on ensuring mobile banking, as it sees great potential to ensure greater "banking transaction" in the country.

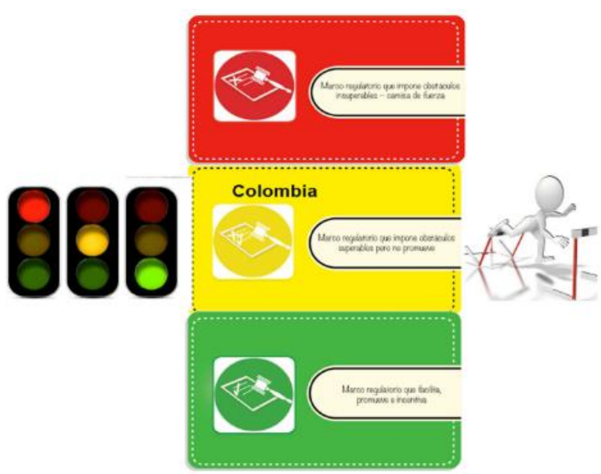
- ***Supervision***

1. **Although SFC does not have staff specializing in micro insurance, it has made and continues to make significant efforts to promote responsible and sustainable development of micro insurance in the country:** this is evidenced not only by their interest in integrating insurance in the discussion of financial inclusion, but also in the genuine interest of wanting to find tools that encourage regulation and at the same time protect consumers of such products.
2. **Various supervisory bodies are called to meet the market development of micro insurance in Colombia, since their monitored entities participate today as distribution channels and transactional platforms of such products.** This still has more justification if it is considered that consumers of these products often do not distinguish the insurer dealer or transactional platform used.

- ***Regulation***

1. **The regulatory framework for micro insurance in Colombia does not impose insurmountable obstacles for the responsible development of the micro insurance, however it neither promotes or encourages it.** The Colombian micro insurance market has been developing without having mediated any regulation that encourages or removes specific obstacles. However, this does not mean that there are barriers that have been overcome but if removed it would facilitate and stimulate their development. Similarly, the current regulatory framework does not stimulate or encourage market participants to enhance the development of responsible micro insurance in an innovative way and focused on the needs of the target population (see Figure 26).

Figure 26 categories of regulatory frameworks



2. **TOP 2 of the most important current regulatory barriers.** While these barriers have not hindered the development of access to insurance in Colombia, to be removed it would facilitate and stimulate responsible micro insurance market. These two barriers are access to distribution channels and barriers to the speed and simplicity of contractual documents and processes (see Figure 27).

<u>The top 3 barriers to access:</u>

(i) massive insurance marketing in Colombia is limited to credit institutions. The marketing of "massive" insurance - products that must meet the characteristics of universality, simplicity and standardization can only be done through networks of credit institutions. Such a possibility was envisaged having offered a clear framework regarding training and accountability in the use of such channel. Other "alternative channels" that currently distribute micro insurance products do so on strategic alliances that are consolidated in underwriting group policies. In such cases aggregators are policyholders, customers and policyholder’s beneficiaries thereof. The underwriters have been using alternative distribution channels through innovative strategic alliances, which are, in most cases, collected through group insurance contracts or collective. From that perspective, the policyholder -the aggregator - markets the product with its clients-the insured -. While the interest of the industry to exceed the regulatory limitation to make their products more affordable is recognized, the following failures that are emerging due to the lack of regulation on this subject are identified: (i) lack of rules for massive insurance market products- who can trade, what are the requirements, what kind of insurance can be marketed through this mechanism, among others (ii) little bargaining power of insurance companies that leads them to accept excessive commissions; (Iii) regulatory gaps that may adversely affect consumers, which is aggravated by the lack of clarity on the reporting obligations in the case of group insurance or; (Iv) there is no clarity on the minimum training of channels or the way in which consumer information is disclosed; (V) there is no clarity on the supervision of the channels when acting as a massive channel; (Vi) there is no clarity on how the responsibility is shared between the consumer against new channels and the consumer insurer
.
(ii) CB cannot be used directly by insurance companies to sell insurance products.
(iii)There is a discussion about the possibility that CB is used as part of the network that the insurer use to market their products.

<u>The top 3 barriers of speed and simplicity of contractual documents and processes:</u>
(i) regulation has sought more flexible acquisition procedures, particularly by reducing requirements linked to measures of client knowledge within the framework of the fight against money laundering. However even the processing of the form is required at the time of payment of the claim.
(ii) regulation of consumer protection revolves around the importance of writing, compliance with formal requirements and background of the contract documents and previous delivery clauses. In many cases these protection tools reduce simplicity, ease of understanding of the document and are not always appropriate for the micro insurance consumer. Deprivation and living conditions of the micro insurance consumer put in mind that through the writing and delivery of multiple documents that meet certain formalities the consumer isn’t always efficiently protected.
(iii) The regulation of data protection and money is solid; however certain requirements may hinder the acquisition procedures. Such is the case of the requirement of express authorization for the use and storage of data, which should be done at the time of signing the contract.

Figure 27 regulatory barriers in Colombia

Access to channels barriers:	• The massive marketing is limited to credit institutions • Insurers cannot sell insurance directly with CB • There is a difference of views on the possibility of selling insurance through CB indirectly
Barriers to simplification and speed:	• direct Internet sales are limited, since by standards SARLAFT it is necessary the filling out of the form of the linkage of the client with signature and fingerprint. • The processing of the knowledge form at time of payment of compensation to the client is required. • The writing, delivery of the policy, regulation and form of it remains the prevalent means of consumer protection. But the way they are regulated do not seem to be adequate to protect consumers of micro insurance. • Certain requirements of data protection law can hinder the acquisition procedures

3. **The 5 positive aspects of regulation that can operate as current incentives:**
   i. The regulation allows not only to corporations engaged in the insurance business, but also to insurance cooperatives. This aspect is positive for micro insurance because the vocation and the channels that have these cooperatives nationwide.
   ii. The current regulation allows regulators of the insurance industry to adopt measures to promote access to insurance in the country. Financial reform of 2009 was emphatic in providing tools to the GC to issue regulations to promote access to insurance in the country.
   iii. The regulation has been making its way to the use of certain transactional platforms in the context of financial inclusion. These being mainly the CB and mobile banking. But now the insurance companies cannot directly enter into agreements with CB to raise premiums, unless they have an alliance with a financial institution that has this network. Mobile banking is emerging as the transactional platform in a not too distant future.
   iv. The regulation does not impose barriers relating to product registration. In Colombia, unlike other countries, insurance products should not be registered one by one, but a single authorization for operation by work line for deposit insurance and general clauses before the SFC is required.
   v. Agricultural insurance is consistently promoted by Colombian regulation. In this way they have allowed insurance companies abroad that offer these products, to reduce the

VAT rate from 16% to 5%, and have clearly defined the conditions for subsidies for small producers.

4. **7 regulatory aspects that require attention as they can have a negative impact on consumer protection:**
   i. Recently Colombians living abroad can purchase any type of insurance, except as provided by law. While this situation increases competition and thus potentially innovation, consumers of these products do not have the same protection by the SFC, being insurers from abroad, and such policies are beyond the scope of the SFC and prudential rules are not legally enforceable of market conduct and consumer protection Colombia. Such a situation would not be ideal for consumers of micro insurance that probably lack sufficient knowledge of insurance to opt for a product from abroad.
   ii. Funeral services companies are not licensed, regulated or supervised, however, offer products that are identified as insurance by the Micro insurance target population. From this perspective, not only disloyal competition problems still persist with insurance companies that must be licensed and are regulated and supervised, but also may endanger the consumer, since they are not bound by rules of market conduct, but also cannot respect the promise acquired in their contracts of funeral services. In addition, it is noteworthy that as a result of the recent financial reform, the beneficiary of the funeral insurance shall directly assume the cost of the funeral, which can be a debt in cases when they don't count the money necessary for this, and then seek reimbursement from the insurance company. This new situation is not suitable for micro insurance consumers, so that the current mode of great need insurance – funeral insurance- is poor due to regulation.
   iii. Insurance group or collectives, which are widely used in micro insurance, have nevertheless regulatory gaps. Group insurance is a tool widely used in micro insurance because it reduces anti-selection and reduces costs, however it is important that the regulatory framework of the insurance group is sufficiently strong and protects not only the policyholder of the group policy but also insured beneficiaries. This protection will ensure that the insured-recipient knows their rights, obligations, product characteristics and conditions of use so they can benefit from it. In Colombia unfortunately there is not a general regulation of group insurance, except for the case of the use of such policies by credit institutions.
   iv. The payment of compensation should be made in the month following the claim, and cannot demand more formalities than those provided by law, so the payment cannot be delayed unreasonably. Within one month it is not adequate enough for micro insurance consumers, since them, because of their financial fragility, require compensation as soon as possible. Similarly, longer terms for payment of compensation reduced trust, so they are not positive to ensure good perception of insurance.
   v. Much of micro insurance products offered in Colombia are door-to-door market, through call centers, for boosters on large surfaces, as well as through other non-traditional methods that assume that the consumer has not sought to acquire such products. This implies the need to recognize the right of withdrawal for these contracts; however, the doctrine has interpreted the regulation of withdrawal right as applicable to insurance.

vi. Questions regarding potential conflicts of DFC interests arise. This is because it is selected and paid by insurance companies.
vii. The statistics of SFC complaints show that the most common problems that record consumers are related to inadequate provision of information on linking and undue attention to the financial consumer. On the other hand, the most common complaints are group life insurance (57%), the product most offered to the target population of micro insurance. If such elements are relevant to conventional insurance, they are equally, or perhaps more relevant to the case of the micro insurance consumer.

5. **The 7 positive aspects for consumer protection of Micro insurance:**
   i. The regulation emphasizes on ensuring that consumers make informed decisions and learn how to use the products offered. Thus the regulation establishes obligations to insurers to ensure that the consumer knows the conditions of the product offered, correctly identify the risk taker, the distribution channels and trading platforms, knows the costs involved, their rights and obligations, mechanisms and deadlines for using the product, mechanisms to register complaints and resolve disputes if they arise. For this method, the form and content of the disclosure is regulated tools. This is justified when much of the sector has observed complaints that have to do with the lack of disclosure.
   ii. Financial education is recognized as a consumer right.
   iii. Tools have been adopted to ensure awareness of the public about insurance that can be beneficial as well as massive insurance costs. It has also discussed the importance of promoting awareness of compulsory insurance.
   iv. There are interesting tools to assist consumers. Legal clinics in Colombia provide free legal services to the lower social levels of the population. On the other hand, the consumer protection associations such as the Colombian Confederation of Consumer offer advice and counsel nationwide through mass media such as television.
   v. While there are interesting tools for both the handling of complaints and conflict resolution, they don't always seem appropriate for the target population for reasons of accessibility and associated costs.
   vi. The judicial functions of the SFC are emerging as relevant and appropriate for the consumer of micro insurance.
   vii. Colombian regulation recognizes the importance of ensuring adequate consumer protection, for it not only obligations imposed on insurers, but also recognize that consumers have responsibilities. Consumers must be diligent in all stages, and thus must adopt best practices for verification and obtaining information, however non-compliance of these practices are not rigged consequences.

7 Recommendations

Recommendations presented below are intended to promote the development of responsible micro insurance in Colombia. Such recommendations substantiating the roadmap under the project were selected taking into account (i) the current state of market development of

Micro insurance in Colombia - a growing market in the process of diversification-; and (ii) the need to ensure that in its implementation all participants in the value chain[160] are involved.

It is noteworthy that for the purpose of promoting the development of responsible micro insurance in Colombia is necessary that all stakeholders directly and indirectly participate actively in the adoption of a concerted strategy -the sheet route- where defined roles and responsibilities are accurate. In order to ensure the concerted adoption of all parties involved it is necessary to consolidate a platform for ongoing dialogue where roles and responsibilities of each entity involved are defined, challenges and solutions are discussed, improved capabilities are promoted for each of the entities involved, and is collected in an integrated manner and complete the information needed to monitor responsible market development for micro insurance. So initially it suggested that a dialogue platform is consolidated in which not only participate the insurers involved but all parties involved. The CM of FASECOLDA can be the starting platform, however it is suggested that the debate be institutionalized from a neutral forum - Interagency Committee of micro insurance-, perhaps through a working group access to insurance under the financial inclusion. Among the entities that should belong to this Committee are FASECOLDA, the SFC, the MinHacienda, the BDO and the Colombian Confederation of Consumers. In first place, we will present the 5 axes of intervention, and in second place the interventions that are recommended to achieve the 5 proposed axes are going to be presented, in every case clearly identifying the responsible entity of said intervention.

7.1 The axes of intervention

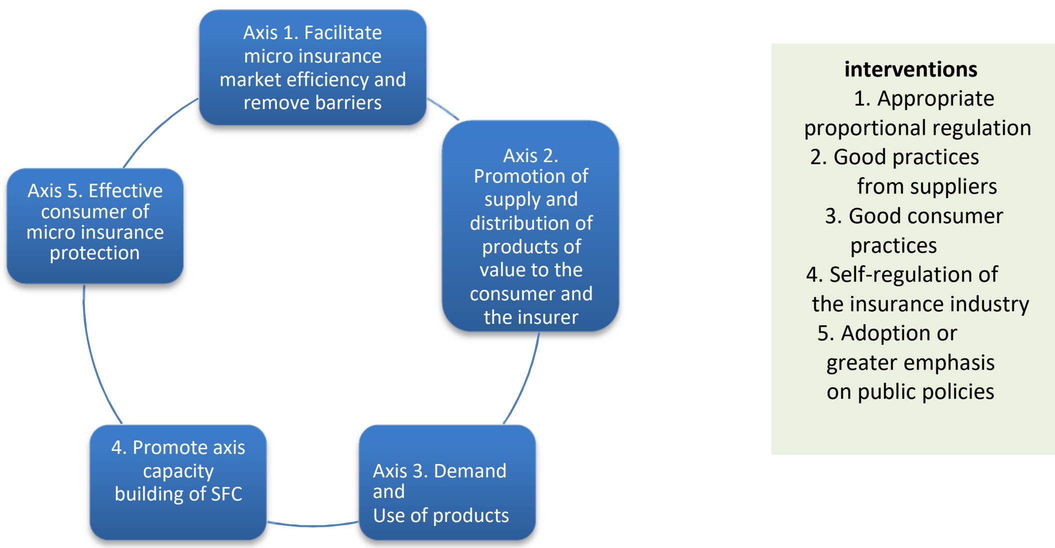
The 5 axes of intervention to promote the development of responsible micro insurance in Colombia. Based on the analysis of the state of current market developments, they were able to identify the following aspects that require immediate intervention by all participants in the value chain to promote the development of responsible micro insurance market in Colombia: (1) To facilitate the efficiency of the micro insurance market and remove regulatory barriers; (2) Promote the supply and distribution of products of value to the consumer and the insurer; (3) To increase the demand and use of micro insurance products in the country; (4) Promote the development of the technical capabilities of the SFC in the topic of micro insurance to ensure adequate regulation and supervision; and (5) effectively protect micro insurance consumers[161].

Axes of intervention are complementary. To achieve the development of responsible micro insurance in Colombia it is required that all axes of intervention are activated and running. Each axis is perfectly engaged with the other (see Figure 28).

For each axis of intervention, 5 interventions are proposed. Each axis of intervention requires that the entities involved take certain specific interventions, which may take the form mainly of:
(1) Proportional regulation and proper supervision; (2) Good practices of suppliers - insurers, channels, transactional platforms, etc.; (3) Good practices of consumers; (4) Self-regulation of the insurance industry; (5) Adoption or public policy emphasis.

[160] The participants in the value chain are: the government, regulators and supervisors, insurers, brokers, distribution channels, transactional platforms, consumers, consumer protection associations, including academia, etc.
[161] While the transverse line of all these axes is consumer protection this as an additional axis is present.

Figure 28 The axes of intervention and its interventions



7.2 Interventions axle

7.2.1 Facilitate responsible market efficiency and remove barriers

7.2.1.1 The proportional regulation as appropriate intervention to meet the first axis

By offering the possibility of removing barriers to micro insurance, the regulator recognizes the importance of them as essential tools to promote access to insurance and risk management in the target population. As noted previously there are some regulatory barriers that although are not insurmountable, to be removed would promote responsible micro insurance market in Colombia. The way to remove such barriers corresponds only to the regulation. The removal of barriers to access to channels, and barriers to simplify and speed, is carried through regulatory interventions that allow the use of channels with potential for social levels 1, 2 and 3, and the simplification of procedures and contractual documents in the case of micro insurance. From this perspective, the regulation in this area is presented as a useful intervention to benefit all market participants. In first place to the industry, as this regulatory proposal opens up opportunities and help to confront their biggest challenges.

In a second place, to effectively protect the consumer. Finding a balance point between elements conducive to innovation and adequate Micro insurance consumer protection is the main challenge that each country must face in addressing the issue of specific regulations for micro insurance (IAIS Application paper on regulation and supporting inclusive insurance markets supervision 2012).

This regulation must also consider massive low-cost insurance. One of the elements highlighted in this analysis is that in Colombia there are different types of products that are accessible and affordable to the target population of micro insurance, including insurance classified as such by FASECOLDA-in which massive low-cost insurance are included and micro insurance in the strict sense-, massive low-cost insurance not reported by the CM of FASECOLDA; and micro insurance products promoted by the government as part of APP. In order to ensure that the responsible market micro insurance is developed, it is important that these categories are monitored and demarcated, in the end; the consumer of micro insurance does not distinguish between the two categories, so that the bad experience of a product contaminates the other categories. From this point of view, to promote the responsible development of micro insurance in Colombia, it is imperative that the proposed regulation not only contemplates micro insurance understood products designed specifically for low-income population, but also the massive low-cost insurance. In all cases, these massive low-cost insurance are risk management tools that despite having a reduced value for the consumer in comparison with the micro insurance, they are in some cases the only option available for low-income population. Thus, towards the agenda of access to safe removal of barriers should be applicable for mass insurance.

However, to encourage industry to offer micro insurance products, it is essential to give more value to the micro insurance than to the low-cost massive insurance from a regulatory point of view. Not encouraging the insurers to offer products specifically designed and intended for low-income population, the industry may not do so in the near future. As seen in the Colombian case, there are few products responsible micro insurance products currently, the vast majority of them are offered under PPP. On the one hand, in countries where there is a possibility to market massive insurance products, but micro insurance has not been regulated, industry is not spontaneously interested in offering micro insurance products, except in the case of insurers with a high Social commitment. Such is the case of El Salvador and Guatemala, countries where, according to recent micro insurance market diagnostics, the massive marketing of products for different types of entities are allowed, a situation that has prompted regulators and supervisors from both countries to advance the analysis of specific regulations for micro insurance. On the other hand, in countries where they have regulated micro and massive insurance, and more incentives for micro insurance are not offered but more for elements that are considered as barriers to the industry, as in Peru, the trend has been that the industry prefers the most beneficial and flexible regime for it so that it chooses not to register their products as micro insurance but as massive insurance. (Camargo and Furst Gonçalves, Encouraging access to insurance in Peru: Reshaping the insurance environment for the underserved and unserved 2014). Given these experiences, it is essential to offer bigger incentives to micro insurance so that in Colombia, the industry is motivated to offer such products, such recommendation is coherent with the aim towards proportionality explained by (Gray, et al. 2013)

Regulatory incentives that are recommended for the Colombian case - removing channel barriers and of simplicity and speed- response to the current state of development of micro insurance in Colombia. However, it should be noted that other countries have adopted other incentives, so that the decision to adopt one or the other depends on the current state of development of micro insurance in each country. Thus, it insisted on that there are no universal rules regarding the suitability of specific regulation for micro insurance and therefore each country should make a decision based on their own experience, the reality, the potential and the maturity of their markets, the present regulatory situation and public policy objectives to be achieved (IAIS Application paper on regulation and supervision support supporting insurance markets including 2012) (see Annex F). With the purpose of knowing more about the regulatory experiences on an international level, it is suggested to review the possible diagnosis on the A2ii page and check the available regulatory package.

7.2.1.2 The regulation is recommended

The regulator has the mandate and capacity to promote access to insurance. The financial reform of 2009 introduced the possibility that regulatory measures were adopted to promote access to insurance in Colombia. From this perspective, the Colombian regulator in particular has the mandate and capacity to issue a regulation to promote access to insurance in Colombia.

The components of the regulatory intervention proposed under a proportional approach. It is recommended to MinHacienda to issue a regulation that includes both micro and massive insurance, where the purpose is to remove the barriers mentioned above and promote responsible insurance market efficiency in the country. Through such regulation only Colombian insurance companies will be allowed to use certain marketing channels when the product distributed is micro insurance or massive insurance. Thus the assessment of the nature of the product - massive or micro insurance- is to be made at the time of application to the SFC for the use of the channel.

1. **Define micro insurance and massive insurance:** offering these regulatory incentives to industry involves the creation of a special regime for micro and massive insurance. So the regulation must first define its scope, which requires a definition of micro insurance and a definition of massive insurance to be adopted. This definition should be simple and of easy review, should lead to a simple checklist that the SFC can assess when approval when use of the channel is requested, and should not be treated in any way as a product registration or approval. It is suggested to be used as experience the evaluation the SFC does today, to authorize the use of network insurers in the case of universal insurance, standardized and simple.

   a. Massive insurance: it is advisable to adopt a definition of "massive insurance" to resume the characteristics of the massive marketing of the Unique Decree, which uses the characteristics of universality, simplicity and standardization. In this regard, it is noteworthy that the consultant group had access to the draft regulation of some insurance companies, which took into account the experiences of countries that have regulated insurance such as Peru, Guatemala, El Salvador, among others. It is advised that this project is discussed in detail by all market participants and advance taking into account the positive and negative international experience. It is therefore important to discuss the definition with other regulatory and supervisory authorities in the region.

b. Micro insurance: the selection of one or another definition of micro insurance can directly influence the development of responsible micro insurance, because it can facilitate innovation, proportionality, and access to insurance. Similarly, an inadequate definition of micro insurance can stifle innovation, create regulatory arbitrage, increase the level of risk, or reduce competition on an equal footing.

Recently the IAIS and A2ii noted that a regulatory framework for promoting responsible micro insurance requires a definition of micro insurance that meets the following objectives:
(i) distinguishes micro insurance from what is not; (Ii) develop a special framework for a "low risk" insurance category; and (iii) provide additional protection to a specific segment of the population (2014 IAIS). In particular according to the first call of experts from the IAIS-A2ii indicated that the entities involved should be clear about the elements that must be defined, and between the elements to be defined: (i) a general description of what micro insurance is; (Ii) the population segment that is intended to achieve micro insurance; (Iii) what the micro insurance business is made of ; (Iv) who can be "insurer" for these products; (V) who can act as a distribution channel for these products; (Iv) what constitutes a micro insurance product; and (vii) what it is a micro insurance contract (IAIS 2014). In this regard, the Application Paper for regulation and supervision to support inclusive insurance markets of the IAIS established the following considerations to be taken into account when assessing the previously stated elements to define micro insurance: (i) the definition should focus on products and all insurers should be empowered to offer micro insurance products; (Ii) the definitions of micro insurance should clearly delineate the micro insurance for other forms of business; (Iii) if quantitative elements are included to define micro insurance - for example the amount of the premium or the amount of value insured- they must be fixed broadly, so as to ensure that the product as inclusive; (Iv) this type of quantitative factors should be used to determine the business profile which will be object of proportional regulation and supervision. When assessing the international experience is found that usually the countries that have regulated micro insurance have noticed that micro insurance are products intended for low-income population, and depending on each case it has been chosen to provide quantitative information to determine the population, and / or product. Similarly, there are countries that have chosen to avoid to quantitatively describing the population and / or product, and have preferred to define the Micro insurance based on the characteristics of the products. It is suggested for involved entities to analyze definitions such as Ghana, which is operating qualitatively without referring to quantitative elements. This definition makes emphasis on the product characteristics – product directed to the target population, affordable premiums and accessible product-, y as a testing tool, the insurer must send a justification to the supervising entity where it is explained why it considers that its product complies with these characteristics.

Given this experience, it is recommended that in Colombia something similar to the following definition is adopted: micro insurance products are those that: (i) are specially designed taking into account the needs and characteristics of the low-income population (priority / potential risks, forms and frequency of premium payment, lighter periods for compensation);
(ii) They are characterized for being simple, both in design and in the applicable contract documents and processes; (Iii) that are accessible through channels designed with a vocation to serve the

target population; and (iv) the cost of products is affordable and proportionate to the risks to be met. To prove that this is a product intended for low-income population it is recommended to allow insurance companies to prove that their product is aimed at social levels 1, 2 and 3; or populations in isolated areas or in areas where poverty rates are high, for example rural areas, among others; or products for micro and small enterprises; products for small and micro entrepreneurs, or check it using any other tool.

2. **Remove barriers to access channels for massive and micro insurance:** in addition to increasing the accessibility of insurance products these measures will create clear rules, which favor competition by allowing various entities to distribute products of insurance- including massive channels, micro-insurance and micro-insurance agents or facilitating transactions. The increase of participating entities in these cases may result in a decrease of the high marketing costs that occur in Colombia today.

   a. *Massive insurance*: Regulation allows the use of alternative distribution channels that are characterized by having a massive reach to all segments of the population and not specifically to the low-income population. In these cases, they shall establish proportionate requirements for these channels to be able to act as "massive channels." Such requirements will be related to its: (a) institutionalization and internal organization; (B) training; and (c) determining liability. It is emphasized that training should be proportionate to the complexity of the products offered -massive insurance-, which would reduce these costs without posing a threat to consumer protection. These requirements may be similar to those established for the regulation of network usage.

   Additionally, it is recommended to mention the ability to use transactional platforms of interest, such as CB and mobile banking. Thus through such platforms they may: (i) raise premiums and severance payments; and (ii) delivering and receiving requests for insurance, policies, general conditions, certifications and documents necessary for the claim for the loss, etc.

   In order to ensure adequate supervision, it is suggested to analyze the possibility of creating a record of massive channels used by insurance companies where products are described making clear these are really massive insurance. It is therefore suggested to analyze the experience of Peru.

   b. Micro insurance: In order to specifically promote the development of micro insurance, a number of additional incentives will be awarded:

      i. In this case the use of entities, associations or organizations of any kind that do not necessarily meet the institutional requirements and internal organization required to massive channels, but have the purpose to serve the target population for micro insurance in Colombia will be allowed, this is the case of CB, CB networks, NGOs, MFIs, compensation funds, money transfer, production cooperatives, natilleras[162], among others (micro insurance channels). It is noteworthy that unlike the CB mass insurance shall be entitled to market micro insurance products, and not only to act as transactional platforms.

a) Now these entities, associations or organizations are empowered to offer group or collective policies in favor of their clients or partners, in which case it will emphasize the importance of promoting awareness of the existence of the products, their benefits and mechanisms for using them by their clients or partners. To this end, it is proposed that the possibility of regulating certain elements of group or collective insurance, to ensure adequate protection of policyholders-beneficiaries is analyzed. However, such regulation is not specific to micro insurance; alternatively they should promote a more comprehensive regulation for group insurance.
b) The "micro-channels" must meet minimum requirements of training proportional to their activities. It is insisted based on the eligibility requirements required should be related to the degree of complexity of the products to be marketed.

ii. Bancóldex be allowed to operate as an authorized channel for marketing of micro insurance products.

iii. Likewise, it is suggested to analyze the industry if the requirements for insurance agents are currently prohibitive, and if applicable, the possibility of reducing to the case where this agent markets micro insurance products is analyzed. This would involve the creation of the micro insurance agent, which will be a natural person who meets minimum training requirements. This agent will generally be a natural person in which the target population trusts and looks like a "role model". As noted in the section on demand, the target population highlighted the interest of having direct advice. This micro insurance will be used independently or in conjunction with micro insurance channels. In the latter case, it will be allowed that when the agent is used, provided that he’s the only that has contact with the client or associate to inform product conditions, there is no need to train staff of the micro insurance channel. It is noteworthy that for these cases, insurers will in all cases be responsible for any fault, negligence or damage caused by agents.

Also, that in the case of mass insurance, the use of CBs and mobile banking will be allowed to facilitate transactions - such as payment of the premium, compensation, notices of loss, among others.

3. **Flexible contractual documents and processes applicable to facilitate simplicity and speed of micro insurance, effectively protecting consumers of micro insurance:** agility and simplicity benefits the consumer and the micro insurance providers. For the specific case of micro insurance it proposes that the following recommendations after assessing its potential unintended consequences are analyzed:

[162] It is noteworthy that in countries like Nigeria's recent micro insurance regulation recognizes "zuzus" which are also THREADS, to commercialize micro insurance products.

i. we insist that micro insurance products should be simple products. This means products that are easy to understand and use both its coverage, as for the description of them in the contract documents, the permission that only exclusions are used that are imperatively necessary depending on the product, the procedures applicable for filing claims, expedited deadlines for response and management mechanisms of complaints. With respect to payment terms of compensation note that some countries have chosen to set minimum payment deadlines, this in order to maintain the insurance value for the target population that is characterized by its financial fragility. Regulation defining the immediate payment if the micro insurance is advisable and in line with a simple product design. However, this proposal must be discussed with the industry in order to analyze its feasibility. Similarly, this proposal should analyze the introduction of this minimum term also for massive insurance, as they are also used by the micro insurance target population, so that non-payment of compensation expeditiously generates the same negative impact on such population. On the other hand, it should be noted that not setting a minimum term on massive insurance, could leave the door open to regulatory arbitrage between micro and massive insurance (Camargo and Furst Gonçalves, encouraging access to insurance in Peru: Reshaping the insurance environment for the underserved and unserved 2014). However, given the tradition followed by Colombia with regard to the introduction of micro insurance, as a second option it is suggests that in a first stage monitored self-regulation by the SFC is promoted. According to the latter it is suggested that the SFC not only participates in the discussion of industry self-regulation on this point, but also perform ongoing monitoring through reports of disaggregated information of micro insurance.

ii. Not requiring the processing of the SARLAFT form at the time of payment of compensation in the case of micro insurance

iii. that delivery of the clauses of the policy prior to signing the contract is not required, but in these cases a flyer designed by the SFC to generate awareness of the potential consumer on good practices that have to be adopted before the purchase the product has to be delivered (ask what is covered and what is not covered? if you have questions about the company or product contact the SFC). In this way it will effectively protect the consumer, since it is important to understand that the consumer of micro insurance is not really protected through difficult to understand extensive policies, with legal language, references to articles of the Commercial Code, among other tools generally used.

iv. that the use of policies and simplified individual certificates, similar to a "sheet key data", along with a card in stating the general policy information, such as the point of contact of the insurance company to file the claim is allowed. However, it is emphasized that the simplicity of the contractual documents is the result of the simplicity of the product, you cannot expect to have simple documents to an extremely complex product

It is suggested that the SFC and the MinHacienda discuss with relevant authorities the possibility that allows obtaining the express authorization of the consumer for the use and storage of data once the contract is signed, in the case of micro insurance.

4. **Ensure the collection of disaggregated data between mass and micro insurance.** This requires the delivery of detailed and comprehensive industry reports to the SFC where the axis of the authorized channel report will be required. This facilitates the objective monitoring of responsible micro insurance market.

7.2.2 Promote the supply and distribution of products with value to the consumer and the insurer

It is recommended that the insurance industry adopts best practices:

1. ***The industry should improve understanding the needs in detail, characteristics and deprivation of the target population through market research***. For those companies interested in the area of micro insurance, have adequate information about the risks, needs and demands of their customers is essential to carry out proper design of their products. International experience shows a direct relationship between customer knowledge, the level of satisfaction with the products themselves and renewal fees received for these products. That is, knowledge of customers is the best guarantee of sustainability of micro insurance market. Conducting research studies demand would adjust coverage and processes to the needs of the target population and improve customer value of products. Nevertheless, one of the most important for the development of micro insurance industry is the high cost barriers of generation of information about the target customers, as well as the risks to which they are subject. This point is shared by all of the partners consulted during the visit to Colombia. Thus it is suggested that under the Inter-institutional Committee of Micro insurance such studies are conducted in order to be of use to all members. Similarly, they suggested to socialize the market studies conducted and to be conducted within the framework of PPP. On the other hand it is essential that insurers know in detail the vision that channels have that have a vocation to serve the low-income population.

2. ***The industry should design innovative micro insurance products that meet the needs for the target population of micro insurance in Colombia, and that are tangible.*** These products can include: damage insurance for home ownership which are not necessarily linked to credit; multi-risk insurance for SMEs; insurance against natural disasters; insurance for small farmers - for which there are incentives; micro insurance products with savings components; nontransferable complementary health insurance; products for the low-income urban areas; products for the informal sector, among others. Products must consider the four elements seeking a safe target population: (i) products with moderate fees, flexibility and simplicity of payment; (Ii) insurance for the whole family; (Iii) products from recognized and experienced insurers and (iv) products characterized by simplicity. It also suggests that insurers identify issues that are of little or no impact on product cost, which may offer more tangibility or constitute an added value to the view of the target population. This is the case of general medical appointments, check electricity meters, loyalty cards, sending

relevant product information via cell phones, technical assistance in the case of farmers, among others.

3. ***The industry should be based on the approach taken by the pilots of PPP and in turn the BDO and Bancóldex should promote the socialization of them***. It is necessary for insurance companies, channels and transactional platforms to know in detail such experiences and learn from them. These experiences (i) give an example of the potential viability of the models; and likewise (ii) can generate confidence about the possibilities of working with the target population. Given that the BDO and Bancóldex have been involved in most of these PPP, it is suggested that they assume a greater role in the task of generation, consolidation and dissemination of public information or public-private of interest to the micro insurance sector.

4. ***The industry should make continuous monitoring to ensure that the product has a real value to the consumer and is effectively profitable and sustainable financially.*** Previously it was recommended that through the special regulation proposal stated that the industry report disaggregated information of micro insurance products to the SFC. This disaggregated information shall contain the necessary data so that it can measure the performance of insurance companies through technical and social key indicators. However such monitoring of product value through other tools. Among them: consumer satisfaction surveys with products; periodic evaluations of the product; Call after-sales tracking, among others.

   Initially it is proposed that insurance companies improve their abilities to make the proper monitoring of these indicators and take steps to ensure that products have real value to the consumer. The industry should monitor the following indicators and components in an aggregate manner but also for each insurance company individually: (i) acquisition rates of the product; (Ii) loss ratios; (Iii) payment time for compensation; (Iv) claims rejection rate; (V) claims and customer complaints of micro insurance and their motives; (Vi) renewal rates; (Vii) commissions paid to channels and transactional platforms and expense ratios incurred.

Figura29 Virtuous circle generated by micro insurance consumer value

Source: Made by myself

   It is suggested that the SFC become part of this process so that its staff can measure the value of the products, and in the future the possibility of this monitoring being led more formally is analyzed.

   Such monitoring not only benefits consumers but also the industry, as this process will allow entities to make the necessary monitoring to implement product changes where necessary to improve and adapt to the preferences and needs of the target population, which implies increased confidence and thus acquisition of products as a result of the good experience with them (see Figure 29).

Additionally simultaneously the creation of indicators for inclusion in the insurance market that integrate elements related to the value of the product is suggested, for such indicators to be incorporated in the next reports of financial inclusion.

5. **Increasing the use of transactional platforms to increase access, transaction and lower costs** it is important that insurers take into account that the transactional channel functions can be performed by other entities or platforms. Such is the case of CB and CB networks, mobile banking, the Banco Agrario, the contact points, postal services, among others. The experience of some PPP proves that these platforms are viable.

7.2.3 Increase the demand and use of micro insurance products in the country

It is recommended for the industry to adopt the best practices for the purpose of:

1. ***Explore the use of channels with great potential to increase access and reduce costs, once regulatory barriers are removed.*** It is imperative that insurers use on a larger scale other channels that have been underused, and whose costs may not be so excessive as the massive channels that are traditionally used. Similarly, in the case where the regulation allows it, it is considered essential that the regulation explore other channels. Among these underused or unused for lack of regulation that clarifies its use, these can be mentioned: the compensation funds, MFIs, MFIs part of the network of Bancóldex, Bancóldex, money transfer companies, postal services, CB, the CB networks, cooperatives, chance, lotteries, employers, banks calling and access to target population, territorial entities, among others. Annex D presents some characteristics of these potential channels.

2. ***Explore the reach of internet sales and other technologies for micro insurance.*** Internet penetration in Colombia in the target population of micro insurance is a growing trend, thanks to programs like Vive Digital. Thus it is possible that in the future direct sales via the Internet will be consolidated as an additional alternative.

Recommendations to the government to adopt public policies that:

1. ***formally recognize the role of insurance on a cross-cutting basis in all public policies and to ensure coordination of the analysis of the issue of insurance in all these cases.***

2. ***Continue to open channels for the use of micro insurance.*** Particularly to all beneficiaries of social programs of social housing, displaced in the process of land restitution, and likewise to MSMEs in the context of promoting the MSMEs in the country. Since population segments which micro insurance are primarily directed to are fundamentally social levels 1, 2 and 3, PPPs can be important tools that allow customers graduation from social level 1 and its approach to micro insurance products.

3. ***Encourage the local government to open channels for the use of micro insurance.*** Experiences like the one in the city of Manizales previously mentioned are replicable, and can serve as a basis for further innovation.

Recommendations for the insurance industry, the government and the SFC to:

Advance the issue of improving financial literacy levels. Through concerted program design where the consumer or their representatives actively participate and further wherein the evaluation of programs is constant and following international standards. To do so, micro insurance should be part of all developments related to financial education at the national level, which was outlined in the section of public policy. SFC to take an active role in relation to the content of financial education programs is recommended. In particular it is recommended that they insist on the importance of promoting knowledge of the micro insurance seal, the obligations of the consumer, applicable processes to use the product, as well as mechanisms to register complaints, grievances and resolve conflicts. It notes the importance that these financial education programs help promote and explain to the target population the "seal" or logo, and what it implies in terms of simplicity of the products. If people do not know the seal they will not be able to take advantage of this facility.

7.2.4 Promote the development of the technical capabilities of the SFC in Micro insurance

It is recommended that the CFS:

1. ***Is trained on how to implement proportionality in the supervision and regulation to promote responsible market development for micro insurance.*** Monitoring requirements should be consistent with the nature, scale and complexity of the risks taken by individual insurers. This cannot be done unless the supervisory body has a detailed and adequate knowledge of the sector and the different implications in terms of risk management that these micro insurance products involve. This implies the adoption of the following measures: (i) an analysis of the training needs of SFC staff on micro insurance and development of training courses according to identified needs; (Ii) establishment of programs for sharing experiences with other supervisors and financial authorities in order to share micro insurance experiences, lessons learned, etc.

2. ***Strengthen its capacity to assess and monitor market performance of micro insurance using as basis technical and social indicators***. To do this disaggregated data collection for micro insurance is a first step, however it is necessary that the SFC are trained, for example through the A2ii, the IAIS, regional and international conferences where experiences are shared for essential performance evaluation and detailed information needed to assess the real value of the products on the market is collected.

3. ***Promote dialogue between supervisory authorities that may be indirectly involved.*** This is the case of the Superintendence of Public Services, the CRC, among others.

7.2.5 effectively protect consumers of micro insurance

As was noted in a preliminary way, consumer protection is a cross-cutting issue present in all previous axes and promoted by all kinds of interventions. Now in addition to the recommendations previously presented a number of additional recommendations are presented below:

Recommendations to industry self-regulation:

1. **Consider adopting a code of conduct for micro insurance.** In this code it is suggested that: identifying complex terms commonly used in the micro products; standardization of clauses which are generally problematic - as in the case of clauses declaration of risk - expedited claims payment; include the right of withdrawal in contracts of micro insurance; extension of the period of notice of loss; no need for additional requirements for the payment of compensation; identifying minimum exclusions depending on the product; standards or minimum requirements for micro-channels or micro-agents; ensure the integration of clauses or sufficient information in the contract documents and marketing on the existence of mechanisms of complaints available, particularly those of the SFC;

Recommendations for SFC:

1. **Analyze with the alternative SES proportional formalization of the entities providing funeral services that are treated by their methodology to insurance products**. It is essential that the SFC along with the entities of the State in the matter take into account the position of the IAIS regarding the need to formalize the risk takers of the target population, as long as they don't guarantee the compliance with minimum prudential requirements, and the application of appropriate market conduct rules can affect not only the insurance market, but also the consumers who are in a particularly vulnerable situation. To this end it is suggested that the adoption of a proportional criterion for determining the requirements are analyzed to offer this type of funeral services, such as requiring prudential rules or reinsurance, noting that compliance with such requirements only allows them to offer these services.

Recommendations for suppliers, consumers, government and SFC:

1. ***Promote the use of legal clinics to provide assistance and advice to consumers of micro insurance.***

2. ***Promote the role of consumer protection associations to consolidate a specific section on the lower social level of the population***.

8 Bibliography

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Annex A Sheet demand studies

	Yankelovich Acevedo & Association (Yanhaas)	Focal Groups- country diagnos tic CNC	Financial Inclusion Survey Banca de las Oportunidades / SFC	Colombian Longitudinal Survey of the University of the Andes, 2012
objective	Market response to meet low-income social groups against the micro insurance risks to which they are exposed, ability to pay, expectations regarding the underwriting and the reasons that inhibit buying insurance, among others.	Focus groups with population from social levels 1, 2 and 3 oriented information about perceptions of their experience with risk, insurance policies, insurance companies and their economic potential and capacity to pay.	Publicize the state of the discussion around the concept of financial inclusion from the academic and practical terms, and identify the possibilities and limitations for measurement in Colombia. Identify segments of the population and especially	Knowing the dynamics of poverty in Colombia to support the design of effective public policies that increase household income in the long run, promote asset accumulation and create conditions conducive to the accumulation of human capital of young people.
Executing company (ies)	Yankelovich Acevedo & Association (Yanhaas)	National Consulting Center (CNC)	Banking Opportunities / CFS.	University of the Andes
Methodology	• Micro insurance demand survey Yanhaas 2008. • Evaluation of the impact of financial education program (baseline and follow-up) • Collection from other sources (CVD Dane, ECLA, Survey financial capabilities, Financial Burden Survey, focus groups, etc.)	• Focus Groups (GFs) with groups of 8 to 12 people with similar characteristics, led by a skilled facilitator. • The discussion guides for GFs were developed by CNC, incorporating the suggestions and comments of the A2ii consultant team. • Recruitment method: Applying filter questions in the questionnaire established to implement the required profile. In	• National survey. They could be people over 18 years that take financial decisions for their household and / or themselves to participate in the survey • Eligible participants were randomly chosen from each household meeting the necessary characteristics by the method of Kish table. • In the survey both objective and attitudinal questions were used.	3 types of instruments were applied: (i) Household Questionnaire, (ii) Questionnaire context communities And (iii) Tools for making anthropometric measurements (weight and height) to children under 5 years and for tests of verbal ability to children from 3 to 9 years. Total of 10,800 households in the sample.
target region	Bogota, Medellin, Cali and Barranquilla	Urban: Bogota, Cali, Medellin Rural: Pradera, Girardota,	This survey data from adults from all regions of Colombia were collected, with a wide	The universe of study in the urban area consists of private households from social levels

			.	1-4 residing in five regions: Bogotá, Central, Eastern, Atlantic and Pacific (excluding Pacific Platform). In rural areas, the universe is made up of households of small producers (mainly from social level 1) four micro regions located in the Mid-Atlantic areas, Cundiboyacense, Eje Cafetero and Central East.
Target population	Social levels 1, 2 and 3	Men and women heads of household of social levels 1 and 2, between 18 and 65 years old, residents of urban and rural areas - previously selected. Heads of Household is understood as the person who generates income	Almost half of the surveyed population s falls into two groups: "Vulnerable administrators of money" and "very cautious money managers with low income."	
effective sample	(To be completed with more information by FASECOLDA)	79 people. A total of 9 GFs were organized with women (49%) and men (51%) of social stratum 1 (32%) and 2 (68%)	Nationally representative sample of 1526 adults. one is presented on sampling of women, which accounted for 63% of the study group, while men made up the 37%.	The estimated sample size was of 1,200 households in each urban area or rural sub-region, for a total of 6,000 urban households and 4,800 rural households. The sample design is probabilistic, stratified, multistage and cluster.
Date of realization	2008	19 to 28 of November, 2013	June and July 2012	First half of 2010

Annex B List interviewed during the visit to the country

ANDIASISTENCIA SA
Colombian Association of Insurance Law (ACOLDESE)
ASOMICROFINANZAS
Banca de las Oportunidades
Agrario de Colombia
Cooperatives Confederation of Colombia (CONFECOOP)
Department for Social Prosperity (DPS)
EQUIDAD Insurance
Colombian Federation of Insurers (FASECOLDA)
Fund for Financing the Agricultural Sector (FINAGRO)
GAS NATURAL FENOSA
LIBERTY INSURANCE SA
MAPFRE Colombia
MARSH
Met Life
Paloquemao market
Ministry of Finance and Public Credit
Opportunity International Colombia SA finance Company for Life
Colombia SA
POSITIVA
PREVISORA
Insurance
RSA Insurance
Superintendencia Financiera de Colombia
SURAMERICANA (Medellin)
SEGUROS BOLIVAR
Swiss Re, Regional Office

Annex C TOP 19 opportunities in Colombian micro insurance market

Offer

1. A strong and well-established insurance industry, in which some companies in the sector are very interested in micro insurance and have excellent technical capabilities in the area;
2. FASECOLDA's capacity to advance the agenda of micro insurance, not only through information gathering for the sector but the dissemination of good practice. Thus there is great potential for self-regulation of the industry;
3. The existence of a wide range of existing channels and also potential new distribution channels, which could help reduce costs while bringing supply and demand;
4. The existence of important pilot experiences through PPP;
5. Financial education is a right of the consumer and the insurance industry has made significant progress to promote it;

Demand

6. About 70% of the Colombian population belong to social level 1, 2 and 3, so there is a large potential market;
7. There is a latent need for a variety of insurance products by social levels 1, 2 and 3;
8. Despite the lack of financial literacy in social levels 1, 2 and 3, the idea of insurance as a concept that helps mitigate the risks of everyday life, is welcomed. Similarly, insurance can be used to combat the use of other risk management mechanisms - such as drop by drop- lenders which besides being expensive, generate over-indebtedness;
9. Based on GF and international experience, the target population indicates a preference for products with: (i) moderate and affordable fees, (ii) payment flexibility and simplicity; (Iii) insurance for the whole family; (Iv) products of renowned and experienced insurers (vi) simplicity in product and process;

Public policies, supervision and regulation

10. Colombian government's interest in advancing responsible Micro insurance: financially sustainable value products for the consumer;
11. The micro insurance alignment with public policies to improve levels of inclusion, risk management, natural disasters, and promotion of agricultural insurance;
12. The government's interest to facilitate transaction through CB and mobile banking;
13. The dialogue between the private and public sector, and more particularly between the insurer guild, the MinHacienda, the SFC;
14. The interest of the SFC to effectively protect consumers of micro insurance through transparency, information and good treatment;
15. The regulation recognizes the importance of consumers to adopt good practices to protect themselves;
16. The absence of insurmountable regulatory barriers that prevent the growth of the sector;

17. The EOSF, thanks to the financial reform of 2009, allows regulators of the insurance industry to adopt regulatory measures to promote access to insurance in the country, both MinHacienda as the SFC are open to promote the responsible development of micro insurance;

18. SFC makes reports on complaints and claims before the SFC, DFC and insurance companies, which are accessible to the public; supporting a better perception of insurance.

19. There are entities that support social levels 1, 2, and 3 when they are service consumers.

Annex D regulatory incentives adopted in other countries

By June 2013, about 27 countries have regulated or are committed to promoting micro insurance via regulation: such is the case of 13 African states of CIMA, India, Peru, the Philippines, Mexico, Brazil, Nicaragua, Ghana, China, Nepal, Taiwan, Malaysia, Pakistan and South Africa. It is specifically interesting to mention the Peruvian, Brazilian and Mexican case, considering the proximity.

Peru I seek to promote micro insurance and protect the consumer, by the possibility of allowing micro-insurance products to be distributed through mass channels at the time when you could not. Also to protect consumers.

Mexico Defines the product and reduces requirements for micro insurance marketing channels.

Brazil By adopting a national micro insurance strategy that pretends to regulate the whole chain of value of micro insurance, admitting new participants like micro insurers, micro insurance brokers and "micro insurance corresponding", simplifying the policies and creating a tributary system for micro insurance. These tributary incentives are: 1. Unification of tax payment for micro insurance "special regime of micro insurance tributary operations" 2. Companies that finance premiums of micro insurance products to their employees can deduct from their tax base the legal person rent such payment. This benefit is temporary and valid until 2017. 3. The same rule applies to the case of natural persons who pay micro insurance to domestic employees.

Philippines decide to formalize entities offering informal insurance, such entities were obligated to create alliances with insurance entities or turn into insurances cooperatives or MBA. Regulations of consumer protection and recently, conflict resolution mechanism specific for micro insurance.

Pakistan, rules that are still pending approval and that emphasize on the protection to micro insurance consumer

India promotes rural and social insurance by commercial insurance companies, in 2005 it eased the requirements for agents, creating the micro insurance figure of agents, and admitted composed production.

Annex E Potential channels with potential for micro insurance

Banco Agrario
The Agricultural Bank concentrates 89% of its offices in rural areas, while private banks concentrate only 14% in these areas. The Banco Agrario represents 52% of total bank branches in rural areas throughout Colombia with a total of 661 offices. For 33% of the smallest municipalities, the Banco Agrario is the only financial institution, in 2012[163]. These figures suggest that the potential of the Banco Agrario as a mechanism to channel micro insurance to rural areas of the country is underused. The Banco Agrario has, in December 2012, had nearly 1.5 million active customers belonging to different economic segments of the population, distributed across the country.
CB
CB assets reach 27,993 in Colombia at the end of 2012, compared with 4,880 that there were in 2008. This figure is significant to explain its enormous reach. Most existing CB in Colombia are working for the top 5 banks[164] the country but it is possible to see growth opportunities (in point number attention but also transactions) that this channel could provide both for insurance companies and policy sale as premium payment.
Channels used for remittances
Remittances received from abroad in Colombia reach an average amount of USD 352 per transaction. In 2012, there were carried out in the country 981.000 remittance transactions totaling USD 4.07 million. In most cases, these remittances serve to reduce the vulnerability of low-income households in society. The origin of these remittances is Spain, the United States and Venezuela fundamentally. The main ways of accessing remittances is through accounts (21% of cases) and electronic turns counter (in 79% of cases). Banks (32%), Commercial Finance Companies 43 (52%), exchange houses (6%) and commission brokerage firms (10%) are chosen for remittance channels. The transaction cost is quite high: for example a shipment of USD200 needs an average spending of 8% of the amount sent from the United States, and 6% from Spain. Adding a micro insurance to this transaction could protect the financial support for low-income families from low socioeconomic social level in Colombia or allow low cost for the issuer to protect their relatives

[163] Financial Inclusion Report 2012.
[164] Banco AV Villas, Banco Agrario, Bancolombia, Citibank, Colpatria.

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